Financial Statements

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Directors' Report

The Directors have pleasure in submitting their report and the audited financial statements of the Group and the Company for the financial year ended 31 December 2009.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding.

The Group subsidiary companies are Cagamas Berhad ("Cagamas") and Cagamas MBS Berhad ("CMBS").

The principal activities of Cagamas consist of purchase of mortgage loans and hire purchase and leasing debts from primary lenders approved by Cagamas and the issue of bonds and notes to finance the purchases. Cagamas also purchases Islamic financing facilities such as home financing, personal financing and hire purchase financing and funded by issuance of Sukuk.

The principal activities of the other subsidiary company, CMBS, consist of purchases of mortgage assets and Islamic mortgage assets from the Government of Malaysia ("GOM") and issuance of residential mortgage-backed securities ("RMBS") and Islamic residential mortgage-backed securities ("IRMBS") to finance the purchases of the mortgage assets and Islamic mortgage assets.

The principal activities of the Group's subsidiary companies and its Special Purpose Entities ("SPE") are also disclosed in Note 36 of the financial statements.

There was no significant change in the nature of these activities during the financial year.

FINANCIAL RESULTS

	Group RM'000	Company RM'000
Net profit for the financial year	414,689	22,500

DIVIDENDS

The dividends paid or declared by the Company since 31 December 2008 were as follows:

	RM'000
In respect of the financial year ended 31 December 2009:	
– a first interim dividend paid on 8 July 2009	16,875
– a second interim dividend paid on 29 December 2009	5,625
	22,500

RESERVES AND PROVISIONS

All material transfers to or from reserves and provisions during the financial year are shown in the financial statements.

RATING PROFILE OF THE BONDS

RAM Rating Services Berhad ("RAM") assigned a rating of AAA/P1 to the bonds, notes and Sukuk issued by the Group. Malaysian Rating Corporation Berhad ("MARC") has assigned ratings of AAA/AAA_{ID} and MARC-1/MARC-1_{ID} to bonds, notes and Sukuk issued by the Group. In addition, RAM and MARC have also assigned ratings of AAA and AAA/AAA_{ID}/AAA_{IS} respectively to the assets-backed Fixed Rate Serial Bonds and Sukuk Musyarakah Issuance.

RELATED PARTY TRANSACTIONS

Most of the transactions of the Group involving mortgage loans, hire purchase and leasing debts, Islamic financing facilities as well as issuance of unsecured debt securities and Sukuk are done at arm's length with various financial institutions including that of substantial shareholders of the Company.

DIRECTORS

The Directors who have held office during the year since the date of the last report are as follows:

Dato' Ooi Sang Kuang (Chairman)
Dato' Mohd Razif Abd Kadir
Tang Wing Chew
Datuk George Ratilal
Dato' Charon Wardini Mokhzani
Dato' Sri Abdul Wahid Omar

In accordance with Articles 19.13 and 19.14 of the Company's Articles of Association, Dato' Ooi Sang Kuang and Dato' Mohd Razif Abd Kadir retires by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

DIRECTORS' BENEFIT

During and at the end of the financial year, no arrangements subsisted to which the Company is a party, being arrangements with the object or objects of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of the Company or any other body corporate.

Since the end of the previous financial year, no Director has received or become entitled to receive a benefit (other than Directors' remuneration disclosed in Note 30 to the financial statements), by reason of a contract made by the Company or a related corporation with the Director or with a firm of which he is a member, or with a Company in which he has a substantial financial interest.

DIRECTORS' INTERESTS

According to the Register of Directors' shareholdings, none of the Directors in office at the end of the financial year held any interest in shares in the Group and Company.

STATUTORY INFORMATION OF THE FINANCIAL STATEMENTS

Before the income statements and balance sheets of the Group and the Company were made out, the Directors took reasonable steps:

(a) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts; and

(b) to ensure that any current assets, other than debts, which were unlikely to realise in the ordinary course of business, their values as shown in the accounting records of the Group and the Company had been written down to an amount which they might be expected so to realise.

STATUTORY INFORMATION OF THE FINANCIAL STATEMENTS (CONTINUED)

At the date of this report, the Directors are not aware of any circumstances:

(a) which would render the amounts written off for bad debts or the amount of the allowance for doubtful debts in the financial statements of the Group and the Company inadequate to any substantial extent; or

(b) which would render the values attributed to current assets in the financial statements of the Group and the Company misleading; or

(c) which have arisen which render adherence to the existing method of valuation of assets and liabilities of the Group and the Company misleading or inappropriate.

No contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of this financial year which, in the opinion of the Directors, will or may affect the ability of the Group and the Company to meet its obligations when they fall due.

At this date of this report, there does not exist:

(a) any charge on the assets of the Group and the Company which has arisen since the end of the financial year which secures the liability of any other person; or

(b) any contingent liability of the Group and the Company which has arisen since the end of the financial year.

At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements which would render any amount stated in the financial statements misleading or inappropriate.

In the opinion of the Directors,

(a) the results of the Group and the Company's operations during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature; and

(b) there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely to affect substantially the results of the operations of the Group and the Company for the financial year in which this report is made.

AUDITORS

Our auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors.

DATO' OOI SANG KUANG
CHAIRMAN

DATUK GEORGE RATILAL
DIRECTOR

Balance Sheets
as at 31 December 2009

	Note	Group 2009 RM'000	Group 2008 RM'000	Company 2009 RM'000	Company 2008 RM'000
ASSETS					
Cash and short-term funds	5	782,344	250,748	6	6
Deposits and placements with financial institutions	6	488,520	1,288,650	–	–
Derivative financial instruments	39	5,983	11,795	–	–
Available-for-sale investment securities	7	2,024,495	1,276,140	–	–
Amounts due from counterparties	8	4,641,145	9,687,695	–	–
Mortgage assets	9	11,898,015	9,697,542	–	–
Islamic mortgage assets	10	7,813,726	6,178,367	–	–
Islamic financing debts	11	4,569,961	5,642,959	–	–
Hire purchase assets	12	2,632	–	–	–
Islamic hire purchase assets	13	27,943	–	–	–
Tax recoverable		–	1,144	–	–
Deferred tax assets	22	21,465	14,054	–	–
Other assets	14	545,212	504,533	–	–
Investment in subsidiary and SPE	36	–	–	3,981,628	3,981,628
Interest in a joint venture company	17	50,865	49,996	50,000	50,000
Property and equipment	15	6,253	1,741	–	–
Intangible assets	16	15,606	18,138	–	–
Amount due from SPE		51	55	–	–
Amount due from joint venture company		9	476	–	218
TOTAL ASSETS		32,894,225	34,624,033	4,031,634	4,031,852
LIABILITIES					
Unsecured bearer bonds and notes	18	11,334,892	13,319,415	–	–
Islamic bonds	19	9,070,033	8,487,196	–	–
Derivative financial instruments	39	47,879	95,827	–	–
Residential mortgage-backed securities	20	4,880,000	5,220,000	–	–
Islamic residential mortgage-backed securities	21	3,910,000	3,910,000	–	–
Deposits and placements of financial institutions		–	465,000	–	–
Deferred tax liabilities	22	298,290	243,401	–	–
Provision for taxation		44,192	17,457	–	–
Other liabilities	23	261,404	243,698	–	–
Amount due to a subsidiary		–	–	3	221
TOTAL LIABILITIES		29,846,690	32,001,994	3	221
REPRESENTED BY:					
Share capital	24	150,000	150,000	150,000	150,000
Reserves		2,897,535	2,472,039	3,881,631	3,881,631
SHAREHOLDERS' FUND		3,047,535	2,622,039	4,031,631	4,031,631
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		32,894,225	34,624,033	4,031,634	4,031,852
NET TANGIBLE ASSETS PER SHARE (RM)	33	20.21	17.36	26.88	26.88

Income Statements
for the financial year ended 31 December 2009

	Note	Group 2009 RM'000	Group 2008 RM'000	Company 2009 RM'000	Company 2008 RM'000
Interest income	26	1,154,390	1,214,309	–	–
Interest expense	27	(721,597)	(828,427)	–	–
Income from Islamic operations	46	243,543	236,529	–	–
Non-interest income	28	(13,511)	(1,548)	30,000	90,075
NET INCOME		662,825	620,863	30,000	90,075
Administration and general expenses		(18,087)	(13,552)	–	(3)
Personnel cost		(21,020)	(17,052)	–	–
Share of profit/(loss) in a joint venture company		869	(4)	–	–
OPERATING PROFIT		624,587	590,255	30,000	90,072
Allowance for impairment losses	31	(65,426)	(25,967)	–	–
PROFIT BEFORE TAXATION AND ZAKAT		559,161	564,288	30,000	90,072
Taxation	32	(142,551)	(142,532)	(7,500)	(23,419)
Zakat		(1,921)	(2,075)	–	–
NET PROFIT FOR THE FINANCIAL YEAR		414,689*	419,681*	22,500	66,653
EARNINGS PER SHARE (SEN)	33	276.46	279.79	15.00	44.44
DIVIDEND PER SHARE (SEN)	34			15.00	11.10

* As set out in Note 47 to the financial statements, net profit for the financial year of the Group includes profit for CMBS of RM197,836,000 (2008: RM250,544,000) that may be subject to a discretionary bonus fee to the GOM after full settlement of the RMBS/IRMBS.

Statements of Changes in Equity
for the financial year ended 31 December 2009

Group	Note	Issued and fully paid ordinary shares of RM1 each RM'000	Share premium relief reserve RM'000	Reverse acquisition relief reserve RM'000	AFS reserve RM'000	Cash flow hedge reserve RM'000	Retained earnings RM'000	Other reserves* RM'000	Total RM'000
Balance as at 1 January 2009		150,000	3,831,628	(3,831,628)	4,331	(61,700)	1,514,162	1,015,246*	2,622,039
Revaluation of available-for-sale investment securities (net)		–	–	–	(4,649)	–	–	–	(4,649)
Fair valuation of interest rate swap into cash flow hedge reserve		–	–	–	–	46,525	–	–	46,525
Transfer to income statement		–	–	–	–	265	–	–	265
Deferred taxation	22	–	–	–	1,161	(9,995)	–	–	(8,834)
Income and expenses recognised directly in equity		–	–	–	(3,488)	36,795	–	–	33,307
Net profit for the financial year		–	–	–	–	–	414,689	–	414,689
Total recognised income and expenses for the financial year		–	–	–	(3,488)	36,795	414,689	–	447,996
First interim dividends in respect of financial year ended 31 December 2009	34	–	–	–	–	–	(16,875)	–	(16,875)
Second interim dividends in respect of financial year ended 31 December 2009	34	–	–	–	–	–	(5,625)	–	(5,625)
Balance as at 31 December 2009	24 & 25	150,000	3,831,628	(3,831,628)	843	(24,905)	1,906,351	1,015,246*	3,047,535

* As set out in note 47 to the financial statements, other reserves relates to retained profits of CMBS that may be subject to a discretionary bonus fee to the GOM after the full settlement of the RMBS/IRMBS.

Statements of Changes in Equity
for the financial year ended 31 December 2009 (continued)

Group	Note	Issued and fully paid ordinary shares of RM1 each RM'000	Share premium relief reserve RM'000	Reverse acquisition relief reserve RM'000	AFS reserve RM'000	Cash flow hedge reserve RM'000	Retained earnings RM'000	Other reserves* RM'000	Total RM'000
Balance as at 1 January 2008		–	–	–	3,493	–	1,361,685	764,692	2,129,870
Revaluation of available-for-sale investment securities (net)		–	–	–	1,120	–	–	–	1,120
Fair valuation of interest rate swap- into cash flow hedge reserve		–	–	–	–	(82,329)	–	–	(82,329)
Transfer to income statement		–	–	–	–	47	–	–	47
Deferred taxation	22	–	–	–	(282)	20,582	–	–	20,300
Income and expenses recognised directly in equity		–	–	–	838	(61,700)	–	–	(60,862)
Net profit for the financial year		–	–	–	–	–	419,681	–	419,681
Total recognised income and expenses for the financial year		–	–	–	838	(61,700)	419,681	–	358,819
Transfer to share reserve		–	–	–	–	–	(250,554)	250,554	–
Arising from reverse acquisition of the Company		150,000	3,831,628	(3,831,628)	–	–	–	–	150,000
First interim dividends in respect of financial year ended 31 December 2008	34	–	–	–	–	–	(11,100)	–	(11,100)
Second interim dividends in respect of financial year ended 31 December 2008	34	–	–	–	–	–	(5,550)	–	(5,550)
Balance as at 31 December 2008	24 & 25	150,000	3,831,628	(3,831,628)	4,331	(61,700)	1,514,162	1,015,246*	2,622,039

* As set out in note 47 to the financial statements, other reserves relates to retained profits of CMBS that may be subject to a discretionary bonus fee to the GOM after the full settlement of the RMBS/IRMBS.

Statements of Changes in Equity
for the financial year ended 31 December 2009 (continued)

		Issued and fully paid ordinary shares of RM1 each	Non-distributable	Distributable	
Company	**Note**	**Share capital RM'000**	**Share premium relief reserve RM'000**	**Retained profits RM'000**	**Total RM'000**
Balance as at 1 January 2009		150,000	3,831,628	50,003	4,031,631
Net profit for the financial year		–	–	22,500	22,500
First interim dividends in respect of financial year ended 31 December 2009	34	–	–	(16,875)	(16,875)
Second interim dividends in respect of financial year ended 31 December 2009	34	–	–	(5,625)	(5,625)
Balance as at 31 December 2009	24 & 25	150,000	3,831,628	50,003	4,031,631
Balance as at 1 January 2008		–*	–	–	–
Arising from reverse acquisition of the Company		150,000	3,831,628	–	3,981,628
Net profit for the financial year		–	–	66,653	66,653
First interim dividends in respect of financial year ended 31 December 2008	34	–	–	(11,100)	(11,100)
Second interim dividends in respect of financial year ended 31 December 2008	34	–	–	(5,550)	(5,550)
Balance as at 31 December 2008	24 & 25	150,000	3,831,628	50,003	4,031,631

* Paid up ordinary share capital as at 1 January 2008 was RM2.

Cash Flow Statements
for the financial year ended 31 December 2009

	Note	Group 2009 RM'000	Group 2008 RM'000	Company 2009 RM'000	Company 2008 RM'000
OPERATING ACTIVITIES					
Net profit for the financial year		414,689	419,681	22,500	66,653
Adjustments for investment items and items not involving the movement of cash and cash equivalents:					
Amortisation of premium less accretion of discount on available-for-sale investment securities		(1,047)	(6,606)	–	–
Amortisation of premium less accretion of discount on Islamic debt securities		(4,216)	(24,003)	–	–
Accretion of discount on mortgage assets		(293,303)	(236,173)	–	–
Accretion of discount on Islamic mortgage assets		(187,497)	(146,992)	–	–
Accretion of discount of hire purchase assets		(19)	–	–	–
Accretion of discount of Islamic hire purchase assets		(217)	–	–	–
Income from Islamic debt securities		(9,837)	(2,356)	–	–
Interest income		(854,159)	(956,995)	–	–
Income from Islamic operations		(212,984)	(569,823)	–	–
Interest expense		721,597	828,427	–	–
Profit attributable to Islamic bondholders		168,463	488,475	–	–
Guarantee fee expense		442	–	–	–
Wakalah fee expense		374	–	–	–
Management fee		(500)	(250)	–	–
Depreciation of property and equipment		(583)	713	–	–
Amortisation of intangible assets		3,223	2,739	–	–
Gain on disposal of property and equipment		(228)	(1)	–	–
Gain on disposal of available-for-sale investment securities		(142)	(175)	–	–
Unrealised loss/(gain) on revaluation of IRS		4,385	(541)	–	–
Allowance for impairment losses		65,426	25,967	–	–
Share of (profit)/loss in a joint venture company		(869)	4	–	–
Taxation		142,551	142,532	7,500	23,419
Zakat		1,921	2,075	–	–
Operating (loss)/profit before working capital changes		(42,530)	(33,302)	30,000	90,072
Decrease in amounts due from counterparties		5,046,550	3,610,239	–	–
Decrease in Islamic financing debts		1,072,998	1,319,838	–	–
Increase in mortgage assets		(1,941,884)	(1,637,131)	–	–
Increase in Islamic mortgage assets		(1,478,575)	(1,954,861)	–	–
Increase in hire purchase assets		(2,613)	–	–	–
Increase in Islamic hire purchase assets		(27,726)	–	–	–
(Decrease)/increase in other assets		437	(4,792)	218	(218)
Decrease in unsecured bearer bonds and notes		(1,984,523)	(2,157,831)	–	–
Increase in Islamic bonds		582,837	974,744	–	–
Decrease in residential mortgage-backed securities		(340,000)	(225,000)	–	–
Decrease in Islamic residential mortgage-backed securities		–	(250,000)	–	–
Increase/(decrease) in other liabilities		1,974	48,495	(218)	221
(Decrease)/increase in deposits and placement of financial institutions		(465,000)	465,000	–	–
Cash generated from operating activities		421,945	155,399	30,000	90,075

Cash Flow Statements
for the financial year ended 31 December 2009 (continued)

	Note	Group 2009 RM'000	Group 2008 RM'000	Company 2009 RM'000	Company 2008 RM'000
Interest received		812,219	966,351	–	–
Income received from Islamic assets		224,490	517,027	–	-
Guarantee fee paid		(647)	–	–	–
Wakalah fee paid		(543)	–	–	–
Management fee received		750	–	–	–
Interest paid		(714,445)	(798,612)	–	–
Profit attributable to Islamic bondholders		(159,948)	(534,560)	–	–
Payment of zakat		(2,105)	(1,007)	–	–
Payment of taxation		(75,763)	(84,881)	(7,500)	(23,419)
Net cash generated from operating activities		505,953	219,717	22,500	66,656
INVESTING ACTIVITIES					
Net proceeds from:					
Purchase of available-for-sale investment securities		(747,595)	(162,301)	–	–
Purchase of property and equipment		(5,912)	(209)	–	–
Purchase of intangible assets		(691)	(2,446)	–	–
Proceeds received from disposal of property and equipment		2,211	9	–	–
Income received from Islamic securities		–	6,567	–	–
Income received from Islamic debt securities		–	2,295	–	–
Interest in a joint venture company		–	(50,000)	–	(50,000)
Net cash utilised in investing activities		(751,987)	(206,085)	–	(50,000)
FINANCING ACTIVITIES					
Payment of dividends		(22,500)	(16,650)	(22,500)	(16,650)
Net cash utilised in financing activities		(22,500)	(16,650)	(22,500)	(16,650)
Net (decrease)/increase in cash and cash equivalents		(268,534)	(3,018)	–	6
Cash and cash equivalents as at beginning of the financial year		1,539,398	1,542,416	6	–
Cash and cash equivalents as at end of the financial year		1,270,864	1,539,398	6	6
Analysis of cash and cash equivalents:					
Cash and short-term funds	5	782,344	250,748	6	6
Deposits and placements with financial institutions	6	488,520	1,288,650	–	–
		1,270,864	1,539,398	6	6

Notes to the Financial Statements
as at 31 December 2009

1. GENERAL INFORMATION

The principal activity of the Company is investment holding.

The Group subsidiary companies are Cagamas Berhad ("Cagamas") and Cagamas MBS Berhad ("CMBS").

The principal activities of Cagamas consists of purchase of mortgage loans and hire purchase and leasing debts from primary lenders approved by Cagamas and the issue of bonds and notes to finance the purchases. Cagamas also purchases Islamic financing facilities such as home financing, personal financing and hire purchase financing and funded by issuance of Sukuk.

The principal activities of the other subsidiary company, CMBS, consist of purchases of mortgage assets and Islamic mortgage assets from the Government of Malaysia ("GOM") and issuance of residential mortgage-backed securities ("RMBS") and Islamic residential mortgage-backed securities ("IRMBS") to finance the purchases of the mortgage assets and Islamic mortgage assets.

The principal activities of the Group's subsidiary companies and its SPEs are also disclosed in Note 36 of the financial statements.

The Company is a public limited liability company, incorporated and domiciled in Malaysia.

The address of the registered office and principal place of business is Level 32, The Gardens North Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements of the Group and the Company have been prepared under the historical cost convention unless otherwise indicated in this summary of significant accounting policies in accordance with Financial Reporting Standards ("FRS"), the Malaysian Accounting Standard Board ("MASB") Approved Accounting Standards in Malaysia for Entities Other than Private Entities and the provisions of the Companies Act, 1965.

The consolidated financial statements incorporate those activities relating to the Islamic operations of the Group.

The Islamic operations of the Group refer to the purchase of Islamic financing facilities such as home financing, personal financing, hire purchase financing and Islamic mortgage assets from approved originators, issuance of Sukuk and IRMBS under Shariah principles, and acquisition, investment in and trading of Islamic financial instruments. In the accounting for the Islamic operations, the Group has, when necessary, modified its accounting policies to comply with the Shariah principles.

The preparation of financial statements in conformity with the provisions of the Companies Act, 1965, FRS and the MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported financial year. It also requires Directors to exercise their judgement in the process of applying the Group and the Company's accounting policies. Although these estimates and judgement are based on the Directors' best knowledge of current events and actions, actual results may differ.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3 to the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(a) Standards, amendments to published standards and interpretations that are applicable to the Group and the Company and are effective:

There is no new accounting standards, amendments to published standards and interpretations to existing standards effective and applicable for the Group and the Company's financial year ended 31 December 2009.

(b) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Group and the Company but not yet effective:

- The revised FRS 101 "Presentation of financial statements" (effective from 1 January 2010) prohibits the presentation of items of income and expenses (that is, "non-owner changes in equity") in the statement of changes in equity. "Non-owner changes in equity" are to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income).

  Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period.

- FRS 107 "Statement of cash flows" clarifies that only expenditure resulting in a recognised asset can be categorised as a cash flow from investing activities.

- FRS 110 "Events after the balance sheet date" reinforces existing guidance that a dividend declared after the reporting date is not a liability of an entity at that date given that there is no obligation at that time.

- FRS 118 "Revenue" provides more guidance when determining whether an entity is acting as a "principal" or as an "agent".

- FRS 136 "Impairment of assets" clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment before the aggregation of segments with similar economic characteristics. The improvement also clarifies that where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value in use should be made.

- FRS 7 "Financial Instruments : Disclosures" (effective for accounting periods beginning on or after 1 January 2010). FRS 7 replaces the disclosures requirements currently in FRS 132: Financial Instruments: Disclosures and Presentation. FRS 7 requires disclosure of quantitative and qualitative information about exposure to risks arising from financial instruments, including minimum disclosures about credit risk, market risk and liquidity risk. The adoption of FRS 7 will require additional disclosure requirements in the Company's financial statements.

- FRS 8 "Operating Segments" (effective for accounting periods beginning on or after 1 January 2009). FRS 8 replaces FRS 114_{2004} Segment Reporting. The new standard requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting purposes. The adoption of FRS 8 will require additional disclosure requirements in the Group and the Company's financial statements.

- IC Interpretation 9 "Reassessment of Embedded Derivatives" (effective for accounting periods beginning on or after 1 January 2010). IC Interpretation 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. The adoption of IC 9 does not have any significant financial impact on the results of the Group and the Company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(b) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Group and the Company but not yet effective (continued):

- IC Interpretation 10 "Interim Financial Reporting and Impairment" (effective for accounting periods beginning on or after 1 January 2010). IC Interpretation 10 prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. The adoption of IC 10 does not have any significant financial impact on the results of the Group and the Company.

In respect of FRS 7, the Group and the Company have applied the transitional provision in the respective standards which exempts the Group and the Company from disclosing the possible impact arising from the initial application of the standard on the Group and the Company's financial statements.

(c) Standards, amendments to published standards and interpretations to existing standards that are not yet effective and are not relevant to the Group and the Company:

- FRS 4 "Insurance Contracts" (effective for accounting periods beginning on or after 1 January 2010). FRS 4 replaces FRS 202_{2004} General Insurance Business and FRS 203_{2004} Life insurance Business. FRS 4 establishes the principles for recognising and measuring insurance contracts that an entity issued and reinsurance contracts that its holds and also disclosures requirements on the natures and extent arising from insurance contracts.

- FRS 123 "Borrowing costs" (effective from 1 January 2010) which replaces FRS 123_{2004}, requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs is removed. The improvement to FRS 123 clarifies that the definition of borrowing costs includes interest expense calculated using the effective interest method defined in FRS 139.

- FRS 5 "Non-current assets held for sale and discontinued operations" clarifies that FRS 5 disclosures apply to non-current assets or disposal groups that are classified as held for sale and discontinued operations.

- FRS 116 "Property, plant and equipments" (consequential amendment to FRS 107 "Statement of cash flows") requires entities whose ordinary activities comprise of renting and subsequently selling assets to present proceeds from the sale of those assets as revenue and should transfer the carrying amount of the asset to inventories when the asset becomes held for sale. A consequential amendment to FRS 107 states that cash flows arising from purchase, rental and sale of those assets are classified as cash flows from operating activities.

- FRS 117 "Leases" clarifies that the default classification of the land element in a land and building lease is no longer an operating lease. As a result, leases of land should be classified as either finance or operating, using the general principles of FRS 117.

- FRS 119 "Employee benefits" clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation. The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation.

- FRS 120 "Accounting for government grants" clarifies that the benefit of a below market rate government loan is accounted for in accordance with FRS 120.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Economic entities in the Group

(a) Subsidiaries

The Group financial statements consolidate the financial statements of the company and all its subsidiaries. Subsidiaries are those corporations, partnerships or other entities in which the Group and the Company have power to exercise control over the financial and operating policies so as to obtain benefits from their activities, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are consolidated using the purchase method of accounting except for certain business combination (as disclosed in 2.2 (b)) which were accounted for using the merger method as follows:

- subsidiaries that were consolidated prior to 1 April 2002 in accordance with Malaysian Accounting Standard 2 "Accounting for Acquisitions and Mergers", the generally accepted accounting principles prevailing at that time;
- business combinations consolidated on/after 1 April 2002 but with agreement dates before 1 January 2006 that meet the conditions of a merger as set out in FRS 122_{2004} "Business Combinations";
- internal group reorganisations, as defined in FRS122_{2004}, consolidated on/after 1 April 2002 but with agreement dates before 1 January 2006 where:
  - the ultimate shareholders remain the same, and the rights of each such shareholder, relative to the others, are unchanged; and
  - the minorities' share of net assets of the Group is not altered by the transfer.
- business combinations involving entities or businesses under common control with agreement dates on/after 1 January 2006.

The Group has taken advantage of the exemption provided by FRS122_{2004} and FRS 3 to apply these Standards prospectively. Accordingly, business combinations entered into prior to the respective effective dates have not been restated to comply with these Standards.

Under the purchase method of accounting, subsidiaries are fully consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases.

Intragroup transactions, balances, and unrealised gains in transactions between group of companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The gain or loss on disposal of a subsidiary is the difference between net disposal proceeds and the Group's share of its net assets as of the date of disposal including the cumulative amount of any exchange differences that relate to the subsidiary companies, and is recognised in the consolidated income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Economic entities in the Group (continued)

(b) Special Purpose Entities ("SPE")

An SPE shall be consolidated when the substance of the relationship between an entity and the SPE indicates that the SPE is controlled by that entity. In the context of an SPE, control may arise through the predetermination of the activities of the SPE (operating on "autopilot") or otherwise. The application of the control concept require, in each case, judgement in the context of all relevant factors.

Control over another entity requires having the ability to direct or dominate its decision-making, regardless of whether this power is actually exercised. Under the definitions of FRS 127, the ability to govern decision making alone, however, is not sufficient to establish control. The ability to govern decision-making must be accompanied by the objective of obtaining benefits from the entity's activities.

The Group has not consolidated BNM Sukuk and CSME since the group has no power to exercise control over the financial and operating policies in the SPE and it does not obtain economic benefits from its activities.

(c) Joint venture company ("JV")

The Group's interest in a JV is accounted for in the consolidated financial statements though the equity method of accounting. Equity accounting involves recognising the Group's share of the post-acquisition results of the JV in the income statement and its share of post-acquisition movements within reserves in reserves.

2.3 Amounts due from counterparties

The Group's main activities, inter alia, involve the purchase of mortgage loans and hire purchase and leasing debts.

The purchase of "Mortgage loans and hire purchase and leasing debts" was reclassified as "Amounts due from counterparties" on the balance sheet in accordance with a Guideline issued by BNM to the financial institutions on 31 July 2001. However, the Group and the counterparties to these transactions still consider the transactions to be sales and purchases.

The Group and the relevant counterparties have entered into agreements which state that any accounting reclassification is only to accommodate accounting convention and/or to comply with the directives of the regulatory authorities, and does not reflect or change the intention of the parties to effect true absolute sales.

As at the balance sheet date, amounts due from counterparties in respect of mortgage loans and hire purchase and leasing debts are stated at their unpaid principal balances due to the Group. Interest income on amounts due from counterparties is recognised on an accrual basis and computed at the respective interest rates based on monthly rest.

2.4 Mortgage assets, Islamic mortgage assets, hire purchase assets and Islamic hire purchase asset

Mortgage assets, Islamic mortgage assets, hire purchase assets and Islamic hire purchase asset are acquired by the Group from the originators at fair values. The originator acts as servicer and remits the principal and interest/income from the mortgage assets, Islamic mortgage assets, hire purchase assets and Islamic hire purchase asset to the Group at specified intervals as agreed by both parties.

As at the balance sheet date, mortgage assets, Islamic mortgage assets, hire purchase assets and Islamic hire purchase asset acquired are stated at their unpaid principal balances due to the Group and adjusted for unaccreted discount. Interest income/income on mortgage assets, Islamic mortgage assets, hire purchase assets and Islamic hire purchase asset respectively are recognised on an accrual basis and computed at the respective interest/profit rates based on monthly rest.

The discount arising from the difference between the purchase price and book value of the mortgage assets, Islamic mortgage assets, hire purchase assets and Islamic hire purchase asset acquired is accreted to the income statement over the term of the mortgage assets, Islamic mortgage assets, hire purchase assets and Islamic hire purchase asset using the effective yield method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Available-for-sale ("AFS") investment securities

AFS investment securities are securities that are acquired and held for yield or capital growth and are usually held for an indefinite period of time, which may be sold in response to market conditions.

Purchases and sales of investments are recognised on the date the Group commits to purchase or sell the asset. Investments are derecognised when the Group has transferred substantially all risks and rewards of ownership.

AFS investment securities are carried at fair value on the balance sheet with cumulative fair value changes reflected under AFS reserve in equity, and recognised in the income statement when the investment securities are disposed of, collected or otherwise sold, or when the securities are determined to be impaired. The fair value of the investment securities is derived from market indicative quotes or observable market prices at the reporting date.

The realised gains or losses on derecognition of AFS investment securities, which are derived based on the difference between the proceeds received and the carrying value of the securities plus any cumulative unrealised gains and losses arising from changes in fair value previously recognised in equity, are credited or charged to the current year's income statement.

At each balance sheet date, the Group assesses whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount.

Interest/profit from AFS investment securities is recognised on an accrual basis. The amortisation of premium and accretion of discount on AFS investment securities are recognised as interest/profit income using the effective yield method.

2.6 Investments in subsidiary and SPE

Investments in subsidiary and SPE are shown at cost. Where an indication of impairment exists, the carrying amount of the investment is assessed and written down immediately to its recoverable amount. Note 2.8 to the financial statement describes as the Group's accounting policy on impairment of assets and Note 3 details out the critical accounting estimates and assumptions.

2.7 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight line basis to write off the cost of the assets over their estimated useful lives, with the exception of work-in-progress which is not depreciated. Depreciation rates for each category of property and equipment are summarised as follows:

Office equipment	20% – 25%
Motor vehicles	20%
Furniture and fittings	10%
Work-in-progress	0%

Subsequent costs are included in the asset's carrying amount or recognised as separate assets, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial year which they are incurred.

At each balance sheet date, the Group assesses whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount. The Group's accounting policy on impairment of assets is reflected in Note 2.8 to the financial statements.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are included in profit/(loss) from operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Impairment of assets

(a) Financial assets

The Group and the Company assess at each balance sheet date whether there is objective evidence that an asset is impaired. An asset is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the asset that can be reliably estimated.

In the case of investment securities classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised, is removed from equity and recognised in the income statement. Impairment loss recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as securities AFS increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

(b) Non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The impairment loss is charged to the income statement, unless it reverses a previous revaluation in which it is charged to the revaluation surplus. Any subsequent increase in recoverable amount is recognised in the income statement.

2.9 Income recognition

Interest income and income on Islamic assets are recognised on an accrual basis. Accretion of discount is recognised on an effective yield basis.

2.10 Premium and discount on unsecured bearer bonds

Premium on unsecured bearer bonds representing the excess of the issue price over the redemption value of the bonds are accreted to the income statement over the life of the bonds on an effective yield basis. Where the redemption value exceeds the issue price of the bonds, the difference, being the discount is amortised to the income statement over the life of the bonds on an effective yield basis.

2.11 Income taxes

Current tax expense represents taxation at the current rate based on taxable profit earned during the financial year.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of transaction affects neither accounting nor taxable profit and loss.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences or unused tax losses can be utilised. Deferred tax is recognised on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is determined using tax rates (and tax laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asses is realised or deferred tax liability is settled.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Cash and cash equivalents

For the purpose of cash flow statement, cash and cash equivalents comprise cash and bank balances and deposits that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2.13 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2.14 Segment reporting

Segment reporting is presented for enhanced assessment of the Group's risk and returns. A business segment is a group of assets and operations engaged in providing products and services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those components.

2.15 Derivative financial instruments and hedge accounting

Interest rate swaps ("IRS") are used by the Group to hedge the issuance of its debt securities from potential movements in interest rates. Further details of the IRS are disclosed in Note 39 to the financial statements.

Fair value of IRS is recognised at inception on the balance sheet, and subsequent changes in fair value as a result of fluctuation in market interest rates are recorded as derivative assets (favourable) or derivative liabilities (unfavourable). Losses and gains from the changes in fair value are taken to the income statement.

For financial instruments designated as hedging instruments, the Group documents at the inception the relationship between the hedging instrument and hedged item, including the risk management objective for undertaking various hedge transactions and methods used to assess the effectiveness of the hedge.

The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivative is highly effective in offsetting changes in the fair value or cash flows of the hedged item.

Cash flow hedge

The effective portion of changes in the fair value of a derivative designated and qualifying as a hedge of future cash flows is recognised directly in the cash flow hedge reserve, and taken to the income statement in the periods when the hedged item affects profit or loss. The ineffective portion of the gain or loss is recognised immediately in the income statement under "Net trading income".

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in the cash flow hedge reserve remains until the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss in the cash flow hedge reserve is recognised immediately in the income statement.

2.16 Provisions

Provisions are recognised when the Group and the Company have a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and when a reliable estimate of the amount can be made. Where the Group and the Company expect a provision to be reimbursed (for example, under an insurance contract) the reimbursement is recognised as separate asset but only when the reimbursement is virtually certain. Provisions are not recognised for future operating losses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.16 Provisions (continued)

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured as the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessment of the time value of money and the risk specific to obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.17 Zakat

The Group recognises its obligations towards the payment of zakat on business. Zakat for the current period is recognised when the Group has a current zakat obligation as a result of a zakat assessment. The amount of zakat expenses shall be assessed when the Group has been in operation for at least 12 months, i.e. for the period known as haul.

Zakat rates enacted or substantively enacted by the balance sheet date are used to determine the zakat expense. The rate of zakat on business, as determined by National Fatwa Council for the financial year is 2.5% of the zakat base. The zakat base of the Group is determined based on the profit after tax of each companies within the group after deducting dividend income and certain non operating income and expenses. Zakat on business is calculated by multiplying the zakat rate with zakat base. The amount of zakat assessed is recognised as an expense in the year in which it is incurred.

2.18 Employee benefits

(a) Short-term employee benefits

Wages, salaries, paid annual leave, bonuses and non-monetary benefits are accrued in the financial year in which the associated services are rendered by the employees of the Group.

(b) Defined contributions plans

The Group contributes to the Employees' Provident Fund ("EPF"), the national defined contribution plan. The contributions to EPF are charged to the income statement in the year to which they relate. Once the contributions have been paid, the Group has no further payment obligations in the future. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

2.19 Intangible assets

(a) Computer software

Acquired computer software and computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (three to five years).

Costs associated with developing or maintaining computer software programmes are recognised when the costs are incurred. Costs that are directly associated with identifiable and unique software products controlled by the Group, which will generate probable economic benefits exceeding costs beyond one year; are recognised as intangible assets. Costs include employee costs incurred as a result of developing software and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised using the straight line method over their estimated useful lives, not exceeding a period of 3 years.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 Intangible assets (continued)

(b) Service rights to transaction administration and administrator fees

Service rights to transaction administration and administrator fees ("Service Rights") represent secured rights to receive expected future economic benefits by way of transaction administration and administrator fees for RMBS and IRMBS issuances.

Service rights are recognised as intangible assets at cost, and amortised using the straight line method over the tenure of RMBS and IRMBS.

Service rights are tested annually for any indication of impairment and carried at cost less accumulated amortisation and accumulated impairment losses. If such indications exist, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write-down is made if the carrying amount exceeds the recoverable amount.

2.20 RMBS and IRMBS

RMBS and IRMBS were issued to fund the purchases of mortgage assets and Islamic mortgage assets from the GOM. As at the balance sheet date, RMBS and IRMBS are stated at their nominal values.

Interest expense on RMBS and profit attributable to IRMBS are recognised on an accrual basis and computed at the respective interest/profit rates.

2.21 Share capital

(a) Classification

Ordinary shares are classified as equity. Other assets are classified as equity and/or liability according to the economic substance of the particular instrument.

Distributions to holders of a financial instrument classified as an equity instrument are charged directly to equity.

(b) Dividends to shareholders of the Company

Dividends on ordinary shares are recognised as liabilities when declared before the balance sheet date. A dividend proposed or declared after the balance sheet date, but before the financial statements are authorised for issue, is not recognised as a liability at the balance sheet. Upon the dividend becoming payable, it will be accounted for as a liability.

2.22 Functional and presentation currency

Items included in the financial statements of the Group and the Company are measured using the currency of the primary economic environment in which the entity operates (the "functional currency").

The financial statements are presented in Ringgit Malaysia, which is the Group's and Company's functional and presentation currency.

2.23 Financial instruments

(a) Description

A financial instrument is any contract that gives rise to both a financial asset of an entity and a financial liability or equity instrument of another entity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Financial instruments (continued)

(a) Description (continued)

A financial asset is any asset that is cash, a contractual right to receive cash or another financial asset from another entity, a contractual right to exchange financial instruments with another entity under conditions that are potentially favourable, or an equity instrument of another entity.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial instruments with another entity under conditions that are potentially unfavourable.

(b) Fair value estimation for disclosure purpose

The fair value of publicly traded derivatives and securities is based on quoted market prices at the balance sheet date. The fair value of IRS is calculated as the present value of the estimated future cash flows.

In assessing fair values of other financial instruments, the Group and the Company use a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for the specific or similar instruments are used for long term debt. Other techniques, such as option pricing models and estimated discounted value of future cash flows, are used to determine the fair value for the remaining financial instruments. In particular, the fair value of financial liabilities is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group and the Company for similar financial instruments.

The face value of financial assets (less any estimated credit adjustments) and financial liabilities with a maturity period of less than one year is assumed to approximate their fair values. The fair value of publicly traded derivatives and securities is based on quoted market prices at the balance sheet date. The fair value of IRS is calculated as the present value of the estimated future cash flows.

2.24 Contingent liabilities and contingent assets

The Group and the Company do not recognise a contingent liability but discloses its existence in the financial statements. A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group and the Company or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognised because it cannot be measured reliably.

A contingent asset is a possible asset that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group and the Company. The Group and the Company do not recognise contingent assets but discloses its existence where inflows of economic benefits are probable, but not virtually certain.

3. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of financial statements in conformity with FRS requires the use of certain critical accounting estimates and exercise of judgement by management in the process of applying the Group's accounting policies.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results.

3. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (CONTINUED)

(a) Fair value of financial instruments

(i) Derivatives and AFS investments securities

The estimates and assumptions considered most likely to have an impact on the Group's results and financial positions are those relating to the fair valuation of derivatives and unquoted AFS investment securities for which valuation models are used. The Group has exercised its judgement to select appropriate valuation techniques for these instruments. However, changes in the assumptions made and market factors used could affect the reported fair values.

(ii) Mortgage assets and Islamic mortgage assets

The Group acquired mortgage assets and Islamic mortgage assets from the approved originators at fair values. The fair values of mortgage assets and Islamic mortgage assets were lower than their carrying values at the date of acquisition. The Group accretes the discounts using the effective yield method, after adjustment for prepayment. The accounting estimates related to deferred discount are critical accounting estimates because they involve significant judgements and assumptions about borrower's prepayment patterns in various interest/profit rate environments that involve a significant degree of uncertainty. The Group evaluates whether it is necessary to change the estimated prepayment rates used in the accretion calculation based on changes in interest/profit rates and expected mortgage prepayments. Estimates of the sensitivity of prepayments to changes in interest/profit rates are reassessed and actual prepayments are compared against the anticipated prepayments.

If changes are necessary, the constant effective yield is recalculated and the net interest/profit income in the current reporting period is adjusted for the amount of discounts that would have been recorded if the new effective yield had been applied since acquisition of the mortgage assets and Islamic mortgage assets.

(b) Impairment

(i) AFS investment securities

The Group determines that AFS investment securities are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates among other factors, the normal volatility in market price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the issuer, industry and sector performance, changes in technology and operational and financing cash flows.

(ii) Intangibles

The Group determines that intangible assets with finite useful lives are impaired when there is an indication that the asset may be impaired.

The recoverable amount of an intangible asset not yet available for use is to be measured annually, irrespective of whether there is any indication that it may be impaired. This is because the ability of an intangible asset to generate sufficient future economic benefits to recover its carrying amount is usually subject to greater uncertainty before the asset is available for use.

An impairment loss is recognised on any shortfall between carrying amount and recoverable amount.

(iii) Mortgage assets, Islamic mortgage assets, hire purchase assets and Islamic hire purchase assets

The Group makes allowances for losses on mortgage assets, Islamic mortgage assets, hire purchase assets and Islamic hire purchase assets based on assessment of recoverability. Whilst management is guided by the requirement of the FRS 139, management makes judgement on the future and other key factors in respect of the recovery of mortgage assets, Islamic mortgage assets, hire purchase assets and Islamic hire purchase assets. Among the factors considered are the net realisable value of the underlying collateral value and the capacity to generate sufficient cash flow to service the mortgage assets, Islamic mortgage assets, hire purchase assets and Islamic hire purchase assets.

3. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (CONTINUED)

(c) Securitisations and SPEs

The Group incorporates its SPEs primarily for the purpose of asset securitisation transactions. The Group does not consolidate its SPE that it does not control. As it can sometimes be difficult to determine whether the Group controls an SPE, it makes judgments about its exposure to the risks and rewards, as well as about its ability to make financial and operational decisions for the SPE in question. In many instances, elements are present that, considered in isolation, indicate control or lack of control over an SPE, but when considered together make it difficult to reach clear conclusion. When assessing whether the Group has to consolidate an SPE, the Group evaluates a range of factors to determine control, including whether:

(i) the Group will obtain the majority of the benefits of the activities of a SPE;
(ii) the Group retains the majority of the residual ownership risks related to the assets in order to obtain the benefits from its activities;
(iii) the Group has decision-making powers to obtain the majority of the benefits; or
(iv) the activities of the SPE being conducted on behalf of the Group according to the Group's specific business needs so that the Group obtains the benefits from the SPE's operations.

The Group consolidates an SPE if the assessment of the relevant factors indicates that the Group has control over these SPE.

(d) Discretionary bonus fee

The discretionary bonus fee to be paid to GOM is determined by CMBS by reference to guidelines, criteria and performance indicators deemed appropriate by CMBS. This is based on the performance by the GOM in discharging its servicing responsibilities until the point where the RMBS and/or IRMBS have been fully redeemed and all obligations and liabilities of CMBS in respect of the RMBS/IRMBS have been discharged.

4. RISK MANAGEMENT OBJECTIVE AND POLICIES

Risk Management is an integral part of the Group and the Company's business and operations. It encompasses identification, measurement, analysing, controlling, monitoring and reporting of risks on an enterprise wide basis.

In recent years, the Group has streamlined risk management according to its business activities, and enhanced key controls to ensure effectiveness of risk management and its independence from risk taking activities.

The Group will continue to develop its human resources, review existing processes and introduce new approaches in line with best practices in risk management. It is the Group and the Company's aims to create strong risk awareness amongst both its front-line and back office staff, where risks are systematically managed and the levels of risk taking are closely aligned to the risk appetite and risk-reward requirements set by the Board of Directors.

Risk Management Structure

The Board of Directors has ultimate responsibility for management of risks associated with the Group's operations and activities. The Board of Directors sets the risk appetite and tolerance level that are consistent with the Group's overall business objectives and desired risk profile. The Board of Directors also reviews and approves all significant risk management policies and risk exposures.

The Board Risk Committee assists the Board of Directors by ensuring that there is effective oversight and development of strategies, policies and infrastructure to manage the Group's risks.

Management is responsible for the implementation of the policies laid down by the Board of Directors by ensuring that there are adequate and effective operational procedures, internal controls and systems for identifying, measuring, analysing, controlling, monitoring and reporting of risks.

The Risk Management Department is independent of other departments involved in risk-taking activities. It is responsible for reporting risk exposures independently and coordinating the management of risks on an enterprise-wide basis.

4. RISK MANAGEMENT OBJECTIVE AND POLICIES (CONTINUED)

Risk faced by the Group

The Group faces the following risks:

(a) Credit risk;
(b) Market risk;
(c) Liquidity risk; and
(d) Operational risk.

(a) Credit risk

Credit risk is the possibility that a borrower or counterparty fails to fulfil its financial obligations when they fall due. Credit risk arises in on balance sheet form such as lending and investments, and in off balance sheet form from guarantees and treasury hedging activities.

The Group manages its credit risk by screening borrowers and counterparties, stipulates prudent eligibility criteria and conducts due diligence on loans and financings to be purchased. The Group has in place an internal rating system which sets out the maximum credit limit permissible for each category of rating. The credit limits are reviewed periodically and are determined based on a combination of external ratings, internal credit assessment and business requirements. All credit exposures are monitored on a regular basis and non-compliance is independently reported to Management and the Board of Directors for immediate remedy.

(b) Market risk

Market risk is the potential loss arising from adverse movements of market prices and rates. Market risk exposure is limited to interest rate risk only as the Group is not engaged in any equity, foreign exchange or commodity trading activities.

The Group controls its market risk exposure by imposing threshold limits. The limits are set based on the Group's risk appetite and the risk-return relationship. These limits are regularly reviewed and monitored. The Group has an Asset Liability Management System which provides tools such as duration gap analysis, interest sensitivity analysis and income simulations under different scenarios to monitor the interest rate risk.

The Group also uses derivative instruments such as IRS to manage and hedge its market risk exposure against fluctuations in interest rates.

(c) Liquidity risk

Liquidity risk arises when the Group and the Company do not have sufficient funds to meet its financial obligations when they fall due.

The Group mitigates its liquidity risk by matching the timing of purchases of loans and debts with issuance of debt securities. The Group and the Company plan cash flow positions and monitor closely every business transaction to ensure that available funds are sufficient to meet business requirements at all times. In addition, the Group and the Company set aside considerable reserve liquidity to meet any unexpected shortfall in cash flow or adverse economic conditions in the financial market.

(d) Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

The Group and the Company have established and maintained comprehensive internal controls, systems and procedures that are subject to regular audit and review by internal auditors. The Group and the Company have in place an established Business Continuity Plan to minimise the impact of any disaster and reduce the time to restore operations. The Group and the Company conduct tests on its critical systems and processes on a regular basis

The Group and the Company has improved its system infrastructure to enhance efficiency, processing and reporting capabilities, and to minimise the likelihood of errors due to manual processes. The systems have built-in controls and validations that will enable the Group and the Company to maintain and monitor limits.

4. RISK MANAGEMENT OBJECTIVE AND POLICIES (CONTINUED)

Securitisation

To date, the Group has undertaken a total of RM13.2 billion of securitisation of the GOM's staff housing loans through its wholly owned subsidiary, CMBS. In respect of securitisation, the rights of the bondholders are limited to the specific asset pool and there is no recourse to the other asset pools, or to CMBS or Cagamas.

Cagamas, as the Transaction Administrator and Administrator, administers and accounts for all receipts and payments and undertakes reconciliations as required. Pending payments of bond coupon and principal redemptions, available funds are reinvested according to the specifications of the Trust Deed. Cash flow statement and statement of cash and investment holdings for each pool are provided to the trustee periodically.

5. CASH AND SHORT-TERM FUNDS

	Group		Company	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Cash and balances with banks and other financial institutions	380	158	6	6
Money at call and deposits placements maturing within one month	604,724	191,260	–	–
Mudharabah money at call and deposits placements maturing within one month	177,240	59,330	–	–
	782,344	250,748	6	6

6. DEPOSITS AND PLACEMENTS WITH FINANCIAL INSTITUTIONS

	Group	
	2009 RM'000	2008 RM'000
Licensed banks	488,520	1,288,650

7. AVAILABLE-FOR-SALE ("AFS") INVESTMENT SECURITIES

At fair value:		
Khazanah bonds	35,173	137,071
Malaysian Government securities	122,521	48,103
Private debt securities	506,855	288,135
Malaysian Government investment issues	51,379	49,628
BNM negotiable notes	–	188,301
Islamic debt securities	687,602	323,524
Negotiable instruments of deposits	619,979	175,589
Bankers acceptances	–	44,579
Islamic accepted bills	–	21,210
Islamic negotiable instrument of deposit	986	–
	2,024,495	1,276,140

The maturity structure of AFS investment securities is as follows:

Maturing within one year	1,243,585	767,764
One year to three years	385,690	201,249
Three years to five years	168,627	133,189
More than five years	226,593	173,938
	2,024,495	1,276,140

8. AMOUNTS DUE FROM COUNTERPARTIES

	Group	
	2009 RM'000	2008 RM'000
Relating to:		
Mortgage loans	3,840,968	7,963,032
Hire purchase and leasing debts	800,177	1,724,663
	4,641,145	9,687,695

The maturity structure of amounts due from counterparties is as follows:

Maturing within one year	1,269,050	6,175,041
One year to three years	1,801,377	3,022,884
Three years to five years	1,570,718	489,770
	4,641,145	9,687,695

9. MORTGAGE ASSETS

Mortgage assets:

Purchase Without Recourse ("PWOR")	11,898,015	9,697,542

The maturity structure of mortgage assets is as follows:

Maturing within one year	1,309,793	1,051,334
One year to three years	2,210,495	1,868,386
Three years to five years	1,976,903	1,617,915
More than five years	9,333,203	7,579,461
	14,830,394	12,117,096
Less: Unaccreted discount	(2,866,445)	(2,388,141)
Less: Allowance for impairment losses	(65,934)	(31,413)
	11,898,015	9,697,542

10. ISLAMIC MORTGAGE ASSETS

Islamic mortgage assets:

Purchase Without Recourse ("PWOR")	7,813,726	6,178,367

The maturity structure of Islamic mortgage assets is as follows:

Maturing within one year	618,751	415,961
One year to three years	1,111,027	834,593
Three years to five years	1,097,639	810,018
More than five years	6,875,140	5,611,729
	9,702,557	7,672,301
Less: Unaccreted discount	(1,845,588)	(1,481,403)
Less: Allowance for impairment losses	(43,243)	(12,531)
	7,813,726	6,178,367

11. ISLAMIC FINANCING DEBTS

	Group 2009 RM'000	2008 RM'000
Islamic house financing debts	1,840,678	2,397,049
Islamic hire purchase debts	1,681,894	2,810,778
Islamic personal financing	1,047,389	435,132
	4,569,961	5,642,959

The maturity structure of Islamic financing debts is as follows:

Maturing within one year	731,618	2,068,803
One year to three years	3,838,343	2,812,926
Three years to five years	–	761,230
	4,569,961	5,642,959

12. HIRE PURCHASE ASSETS

Purchase Without Recourse ("PWOR")	2,632	–

The maturity structure of hire purchase assets is as follows:

Maturing within one year	1,765	–
One year to three years	926	–
	2,691	–
Less: Unaccreted discount	(43)	–
Less: Allowance for impairment losses	(16)	–
	2,632	–

13. ISLAMIC HIRE PURCHASE ASSETS

Purchase Without Recourse ("PWOR")	27,943	–

The maturity structure of Islamic hire purchase assets is as follows:

Maturing within one year	7,630	–
One year to three years	13,982	–
Three years to five years	7,362	–
More than five years	554	–
	29,528	–
Less: Unaccreted discount	(1,409)	–
Less: Allowance for impairment losses	(176)	–
	27,943	–

14. OTHER ASSETS

	Group 2009 RM'000	Group 2008 RM'000
Accrued interest receivables	404,382	356,612
Mortgage assets repurchased	42,209	49,342
Staff loans and financing	4,532	3,292
Deposits	932	869
Prepayments	581	784
Income receivables	91,965	93,390
Prepaid mortgage guarantee fee	205	–
Prepaid Wakalah fee	169	–
Other receivables	237	244
	545,212	504,533

15. PROPERTY AND EQUIPMENT

Group	Office equipment RM'000	Furniture and fittings RM'000	Motor vehicles RM'000	Work-in-progress RM'000	Total RM'000
2009					
Cost					
As at 1 January 2009	3,679	930	722	4	5,335
Additions	1,561	4,351	–	–	5,912
Disposals	(1,099)	(779)	(105)	–	(1,983)
As at 31 December 2009	4,141	4,502	617	4	9,264
Accumulated Depreciation					
As at 1 January 2009	(2,549)	(573)	(472)	–	(3,594)
Charge for the year	(690)	(338)	(106)	–	(1,134)
Disposals	1,086	526	105	–	1,717
As at 31 December 2009	(2,153)	(385)	(473)	–	(3,011)
Net book value as at 31 December 2009	1,988	4,117	144	4	6,253
2008					
Cost					
As at 1 January 2008	3,516	908	720	–	5,144
Additions	172	23	11	4	210
Disposals	(9)	(1)	(9)	–	(19)
As at 31 December 2008	3,679	930	722	4	5,335
Accumulated Depreciation					
As at 1 January 2008	(2,043)	(491)	(357)	–	(2,891)
Charge for the year	(508)	(82)	(123)	–	(713)
Disposals	2	–	8	–	10
As at 31 December 2008	(2,549)	(573)	(472)	–	(3,594)
Net book value as at 31 December 2008	1,130	357	250	4	1,741

16. INTANGIBLE ASSETS

Group	Service rights RM'000	Computer software RM'000	Licenses RM'000	Computer software under development RM'000	Total RM'000
2009					
Cost					
As at 1 January 2009	16,717	10,004	705	297	27,723
Additions	–	429	262	–	691
As at 31 December 2009	16,717	10,433	967	297	28,414
Accumulated Amortisation					
As at 1 January 2009	(4,094)	(5,373)	(118)	–	(9,585)
Charge for the year	(1,204)	(1,813)	(206)	–	(3,223)
As at 31 December 2009	(5,298)	(7,186)	(324)	–	(12,808)
Net book value as at 31 December 2009	11,419	3,247	643	297	15,606
2008					
Cost					
As at 1 January 2008	17,161	7,111	160	845	25,277
Additions	–	2,345	545	–	2,890
Reclassification	–	548	–	(548)	–
Reclassed to other liabilities	(444)	–	–	–	(444)
As at 31 December 2008	16,717	10,004	705	297	27,723
Accumulated Amortisation					
As at 1 January 2008	(2,896)	(3,883)	(67)	–	(6,846)
Charge for the year	(1,198)	(1,490)	(51)	–	(2,739)
As at 31 December 2008	(4,094)	(5,373)	(118)	–	(9,585)
Net book value as at 31 December 2008	12,623	4,631	587	297	18,138

Service rights are amortised over a straight line basis, over the tenure of the RMBS/IRMBS. The remaining amortisation period of the assets ranges from 5 to 18 years (2008: 6 to 19 years).

17. INTEREST IN A JOINT VENTURE ("JV") COMPANY

	2009 RM'000	2008 RM'000
Group		
Share of net assets of a JV	50,865	49,996
Company		
Unquoted shares at cost	50,000	50,000

The Company has a 50% interest in a joint venture ("JV"), Cagamas HKMC Berhad ("CHKMC"), which provides mortgage guarantee and mortgage indemnity business and other form of credit protection. The following amounts represent the Company's 50% share of the assets and liabilities, and results of the JV. They are included in the balance sheet and income statement of the Group.

	Group	
	2009 RM'000	2008 RM'000
Assets		
Current assets	51,191	50,753
Liabilities		
Current liabilities	326	757
Net assets	50,865	49,996
Income	1,552	826
Expenses	(683)	(830)
Profit/(loss) after tax	869	(4)

There are no contingent liabilities relating to the Group's interest in the JV, and no contingent liabilities of the venture itself.

18. UNSECURED BEARER BONDS AND NOTES

		2009		2008	
Group	**Year of maturity**	**Amount outstanding RM'000**	**Effective interest rate %**	**Amount outstanding RM'000**	**Effective interest rate %**
(a) Fixed rate bonds	2009	–	–	1,630,000	3.870-4.900
	2010	1,325,000	4.220-4.795	1,325,000	4.220-4.795
	2011	480,000	3.912-4.350	480,000	3.912-4.350
		1,805,000		3,435,000	
Less: Unamortised discount		(108)		(585)	
		1,804,892		3,434,415	

18. UNSECURED BEARER BONDS AND NOTES (CONTINUED)

Group	Year of maturity	2009 Amount outstanding RM'000	2009 Effective interest rate %	2008 Amount outstanding RM'000	2008 Effective interest rate %
(b) Short-term notes	2009	300,000		–	
		300,000		–	
(c) Medium-term notes	2009	–	–	495,000	4.050
	2010	1,190,000	2.500-4.480	640,000	3.980-4.480
	2011	700,000	2.950-4.630	570,000	4.600-4.630
	2012	745,000	3.400-4.210	340,000	4.210
	2013	145,000	4.900-5.000	145,000	4.900-5.000
	2014	2,070,000	4.320-4.660	345,000	4.440
	2015	245,000	5.190-5.300	245,000	5.190-5.300
	2016	380,000	4.700-4.930	–	–
	2017	455,000	4.640	455,000	4.640
	2018	140,000	5.710	140,000	5.710
	2019	840,000	4.800-5.280	320,000	4.800
	2020	170,000	5.900-6.000	170,000	5.900-6.000
	2021	310,000	5.120-5.380	–	–
	2022	350,000	4.950	350,000	4.950
	2023	140,000	6.050	140,000	6.050
	2024	425,000	5.270-5.520	–	–
	2027	250,000	5.150	250,000	5.150
	2028	430,000	6.250-6.500	430,000	6.250-6.500
	2029	245,000	5.500-5.750	–	
		9,230,000		5,035,000	
(d) Commercial papers	2009	–		4,850,000	3.480-3.770
		–		4,850,000	
		11,334,892		13,319,415	

	Group 2009 RM'000	Group 2008 RM'000
The maturity structure of unsecured bearer bonds and notes is as follows:		
Maturing within one year	2,814,892	6,974,963
One year to three years	1,925,000	3,014,452
Three years to five years	2,215,000	485,000
More than five years	4,380,000	2,845,000
	11,334,892	13,319,415

18. UNSECURED BEARER BONDS AND NOTES (CONTINUED)

(a) Fixed rate bonds

The fixed rate bonds are redeemable at par on the due date, unless previously redeemed, together with the accrued interest where applicable.

(b) Short-term notes and medium-term notes

The short-term notes and medium-term notes are redeemable at par on respective due dates, unless previously redeemed, together with the accrued interest where applicable.

(c) Commercial papers

These are short-term instruments with maturities ranging from 1 to 12 months and are issued at a discount or at par (coupon-bearing).

19. ISLAMIC BONDS

Group	Year of maturity	2009 Amount outstanding RM'000	2009 Effective profit rate %	2008 Amount outstanding RM'000	2008 Effective profit rate %
(a) Sanadat Mudharabah Cagamas	2009	–	–	50,000	–
		–		50,000	
(b) Sanadat Cagamas					
(i) Primary bonds	2009	–	–	300,000	4.225
		–		300,000	
(ii) Secondary bonds	2009	–		12,675	
		–		312,675	
Less: Unamortised deferred expenses		–		(7,956)	
Less: Unamortised discount		–		(1)	
		–		304,718	
(c) Bithaman Ajil Islamic securities					
(i) Primary bonds	2009	–	–	1,110,000	3.620-4.650
	2010	985,000	3.660-4.220	985,000	3.660-4.220
	2011	240,000	4.050-4.160	240,000	4.050-4.160
	2012	240,000	4.150	240,000	4.150
		1,465,000		2,575,000	
(ii) Secondary bonds	2009	–		94,691	
	2010	39,714		39,714	
	2011	14,930		14,930	
	2012	4,980		4,980	
		1,524,624		2,729,315	
Less: Unamortised deferred expenses		(38,684)		(116,837)	
		1,485,940		2,612,478	

19. ISLAMIC BONDS (CONTINUED)

Group		Year of maturity	2009 Amount outstanding RM'000	2009 Effective profit rate %	2008 Amount outstanding RM'000	2008 Effective profit rate %
(d)	**Islamic commercial papers**	2009	–	–	545,000	3.480-3.770
		2010	380,000	2.400 -2.420	–	–
			380,000		545,000	
	Less: Unamortised discount		(907)		–	
			379,093		545,000	
(e)	**Islamic medium-term notes**	2009	–	–	1,385,000	3.700-4.050
		2010	2,400,000	2.500-4.250	1,675,000	3.850-4.250
		2011	650,000	2.950-4.630	240,000	4.150-4.630
		2012	885,000	3.340-3.900	–	–
		2013	235,000	4.900-5.000	235,000	4.900-5.000
		2014	290,000	4.000-4.660	–	–
		2015	245,000	5.190-5.300	245,000	5.190-5.300
		2016	240,000	4.710-4.930	–	–
		2018	195,000	5.710-5.800	195,000	5.710-5.800
		2019	345,000	5.030-5.800	–	–
		2020	260,000	5.900-6.000	260,000	5.900-6.000
		2021	235,000	5.150-5.380	–	–
		2023	335,000	6.050-6.350	335,000	6.050-6.350
		2024	305,000	5.270-5.520	–	–
		2028	405,000	6.250-6.500	405,000	6.250-6.500
		2029	180,000	5.500-5.750	–	–
			7,205,000		4,975,000	
			9,070,033		8,487,196	

	Group 2009 RM'000	Group 2008 RM'000
The maturity structure of Islamic bonds is as follows:		
Maturing within one year	3,777,118	3,411,256
One year to three years	2,022,915	3,157,205
Three years to five years	525,000	478,735
More than five years	2,745,000	1,440,000
	9,070,033	8,487,196

19. ISLAMIC BONDS (CONTINUED)

(a) Sanadat Mudharabah Cagamas

Sanadat Mudharabah Cagamas are issued based on profit-sharing basis and are redeemable at par on the due dates unless there is principal diminution.

(b) Sanadat Cagamas

Sanadat Cagamas are issued under the Islamic principle of Bai' Bithaman Ajil with non-detachable secondary bonds. The non-detachable secondary bonds are redeemable on the due date.

(c) Bithaman Ajil Islamic securities

Bithaman Ajil Islamic securities are issued under the Islamic principle of Bai' Bithaman Ajil with non-detachable secondary bonds. The non-detachable secondary bonds are redeemable on the due dates.

(d) Islamic commercial papers

Islamic commercial papers are issued by the Group based on various Islamic principles. These are short-term Islamic instruments with maturities ranging from 1 to 12 months and are issued at a discount or at par (coupon-bearing).

(e) Islamic medium-term notes

Islamic medium-term notes are long term papers issued by the Group based on various Islamic principles. These Islamic bonds have tenures of more than 1 year and carry a profit which is determined at the point of issuance. Profit on these bonds is paid on half-yearly/quarterly.

20. RESIDENTIAL MORTGAGE-BACKED SECURITIES ("RMBS")

		2009		2008	
Group	**Year of maturity**	**Amount outstanding RM'000**	**Effective interest rate %**	**Amount outstanding RM'000**	**Effective interest rate %**
RMBS	2009	–	–	340,000	4.300
	2010	765,000	4.000-4.440	765,000	4.000-4.440
	2011	290,000	4.950	290,000	4.950
	2012	645,000	4.100-4.710	645,000	4.100-4.710
	2014	725,000	4.280-5.500	725,000	4.280-5.500
	2015	320,000	5.100	320,000	5.100
	2017	870,000	4.520-5.340	870,000	4.520-5.340
	2019	260,000	4.700	260,000	4.700
	2020	385,000	5.650	385,000	5.650
	2022	250,000	4.900	250,000	4.900
	2025	265,000	5.920	265,000	5.920
	2027	105,000	5.080	105,000	5.080
		4,880,000		5,220,000	

20. RESIDENTIAL MORTGAGE-BACKED SECURITIES ("RMBS") (CONTINUED)

	Group 2009 RM'000	Group 2008 RM'000
The maturity structure of the RMBS is as follows:		
Maturing within one year	765,000	340,000
One year to three years	935,000	1,055,000
Three years to five years	725,000	645,000
More than five years	2,455,000	3,180,000
	4,880,000	5,220,000

The RMBS have the following features:

(a) The subsidiary has an option to redeem partially the RMBS subject to the terms and conditions of each transaction.

(b) RMBS' interest coupon is payable quarterly in arrears.

(c) The RMBS are constituted by a Trust Deed made between CMBS and the Trustees, to act for the benefit of the bondholders.

(d) The RMBS constitute direct, unconditional, unsubordinated and secured obligations of the subsidiary and rank pari passu without discrimination, preference or priority among themselves, but are subject to payments preferred under law and the Issue Documents.

(e) The RMBS are issued on a limited recourse basis. Holders of the RMBS will be limited in their recourse to the underlying mortgage assets, the related collections and the proceeds from the enforcement of other securities related to the mortgage assets.

21. ISLAMIC RESIDENTIAL MORTGAGE-BACKED SECURITIES ("IRMBS")

Group	Year of Maturity	2009 Amount outstanding RM'000	2009 Effective profit rate %	2008 Amount outstanding RM'000	2008 Effective profit rate %
IRMBS	2010	545,000	3.630-3.840	545,000	3.630-3.840
	2012	515,000	3.700-4.240	515,000	3.700-4.240
	2014	270,000	3.780	270,000	3.780
	2015	515,000	4.710	515,000	4.710
	2017	810,000	3.900-5.010	810,000	3.900-5.010
	2019	245,000	4.020	245,000	4.020
	2020	400,000	5.270	400,000	5.270
	2022	320,000	4.170	320,000	4.170
	2027	290,000	4.430	290,000	4.340
		3,910,000		3,910,000	

21. ISLAMIC RESIDENTIAL MORTGAGE-BACKED SECURITIES ("IRMBS") (CONTINUED)

	Group	
	2009	**2008**
	RM'000	**RM'000**
The maturity structure of the IRMBS is as follows:		
Maturing within one year	545,000	–
One year to three years	515,000	545,000
Three years to five years	270,000	515,000
More than five years	2,580,000	2,850,000
	3,910,000	3,910,000

The IRMBS have the following features:

(a) The subsidiary has an option to redeem partially the IRMBS subject to the terms and conditions of each transaction.

(b) The IRMBS' profit is distributable quarterly in arrears.

(c) The IRMBS are constituted by a Trust Deed made between CMBS and the Trustees, to act for the benefit of the bondholders.

(d) The IRMBS constitute direct, unconditional, unsubordinated and secured obligations of the subsidiary and rank pari passu without discrimination, preference or priority among themselves, but are subject to payments preferred under law and the Issue Documents.

(e) The IRMBS are issued on a limited recourse basis. Holders of the IRMBS will be limited in their recourse to the underlying Islamic mortgage assets, the related collections and the proceeds from the enforcement of other securities related to the Islamic mortgage assets.

22. DEFERRED TAXATION

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority. The following amounts, determined after appropriate offsetting, are shown in the balance sheet.

	Group	
	2009	**2008**
	RM'000	**RM'000**
Deferred tax assets	21,465	14,054
Deferred tax liabilities	(298,290)	(243,401)
	(276,825)	(229,347)

22. DEFERRED TAXATION (CONTINUED)

The movements in deferred tax assets and liabilities of the Group during the financial year comprise the following:

Group 2009	As at 1.1.2009 RM'000	Debit/(credit) to income statement RM'000	Debit to reserves RM'000	As at 31.12.2009 RM'000
Deferred tax assets/(liabilities)				
Excess of capital allowances over depreciation on property and equipment	(1,537)	(3,085)	–	(4,622)
Temporary difference relating to accretion of discount of AFS investment securities and mortgage assets	(257,604)	(52,130)	–	(309,734)
Unrealised gains on revaluation of AFS investment securities	(1,443)	–	1,161	(282)
Unrealised gains on revaluation of IRS	(1,609)	113	–	(1,496)
Temporary difference relating to allowance for impairment losses	10,986	16,355	–	27,341
Unrealised losses on revaluation of IRS under cash flow hedge accounting	21,860	103	(9,995)	11,968
	(229,347)	(38,644)	(8,834)	(276,825)

2008	As at 1.1.2008 RM'000	Debit/(credit) to income statement RM'000	Debit to reserves RM'000	As at 31.12.2008 RM'000
Deferred tax assets/(liabilities)				
Excess of capital allowances over depreciation on property and equipment	(1,400)	(137)	–	(1,537)
Temporary difference relating to accretion of discount of AFS investment securities and mortgage assets	(188,754)	(68,850)	–	(257,604)
Unrealised gains on revaluation of AFS investment securities	(1,161)	–	(282)	(1,443)
Unrealised gains on revaluation of IRS	(604)	(1,005)	–	(1,609)
Temporary difference relating to allowance for impairment losses	4,674	6,312	–	10,986
Unrealised losses on revaluation of IRS under cash flow hedge accounting	166	1,112	20,582	21,860
	(187,079)	(62,568)	20,300	(229,347)

23. OTHER LIABILITIES

	Group 2009 RM'000	Group 2008 RM'000
Provision for zakat	2,651	2,835
Profit attributable to bondholders	84,782	76,046
Accrued interest payables on:		
Unsecured bearer bonds and notes	115,988	105,676
RMBS	22,702	25,862
Profit attributable to:		
IRMBS	19,642	19,863
Other payables	15,639	13,416
	261,404	243,698

24. SHARE CAPITAL

Group and Company	2009 RM'000	2008 RM'000
Ordinary shares of RM1 each:		
Authorised:		
Balance as at beginning of year	500,000	100
Increase in authorised share capital effected on 2 January 2008	–	499,900
Balance as at end of year	500,000	500,000
Issued and fully paid up:		
Balance as at beginning of year	150,000	–*
Shares issued in respect of acquisition of Cagamas, CMBS, CSME and BNM Sukuk	–	150,000
Balance as at end of year	150,000	150,000

* Paid up share capital as at date of incorporation was RM2.

25. RESERVE

The Group has sufficient tax credit under Section 108 of the Income Tax Act, 1967 to pay dividends out of its entire retained profits as at 31 December 2009. The Group also has tax exempt income under Section 12 of the Income Tax (Amendments) Act, 1999 which can be paid out as tax exempt dividends.

26. INTEREST INCOME

	Group 2009 RM'000	Group 2008 RM'000
Interest income from:		
Amounts due from counterparties relating to:		
Mortgage loans	190,836	352,021
Hire purchase and leasing debts	53,773	105,590
Mortgage assets	557,023	440,388
Mortgage assets repurchased	1,678	1,963
AFS investment securities	26,007	15,900
Deposits and placements with financial institutions	24,367	44,941
Islamic hire purchase assets	475	–
	854,159	960,803
Accretion of discount less amortisation of premium (net)	300,231	253,506
	1,154,390	1,214,309

27. INTEREST EXPENSE

	Group 2009 RM'000	Group 2008 RM'000
Interest expense on:		
Unsecured bearer bonds	99,028	273,046
Unsecured bearer notes	–	2,787
Medium-term notes	325,555	150,653
Commercial papers	47,062	138,219
RMBS	246,800	259,599
Deposits and placements of financial institutions	3,152	4,123
	721,597	828,427

28. NON-INTEREST INCOME

	Group 2009 RM'000	Group 2008 RM'000	Company 2009 RM'000	Company 2008 RM'000
Net unrealised losses from changes in fair value of derivative financial instruments	(846)	(541)	–	–
Net losses from derivative financial instruments	(13,763)	(2,404)	–	–
Other non-operating income	1,449	1,225	–	–
Gain on disposal of AFS investment securities	142	171	–	–
(Loss)/gain on disposal of property and equipment	(228)	1	–	–
Realised loss on hedged IRS	(265)	–	–	–
Dividend income	–	–	30,000	90,075
	(13,511)	(1,548)	30,000	90,075

29. OPERATING PROFIT

	Group		Company	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
The following items have been charged in arriving at profit before taxation and zakat:				
Directors' remuneration (Note 30)	445	258	–*	–*
Rental of premises	2,220	757	–	–
Hire of equipment	194	175	–	–
Auditors' remuneration:				
Audit fee	127	127	–*	–*
Non-audit fee	52	60	–	–
Depreciation of property and equipment	1,134	713	–	–
Amortisation of intangible assets	3,223	2,739	–	–
Personnel cost:				
Salary and allowances	9,298	7,616	–	–
Bonus	7,278	5,777	–	–
Overtime	54	50	–	–
Contributions to Employees Provident Fund	2,687	2,247	–	–
SOCSO	49	42	–	–

* Directors' remuneration of RM259,000 and auditor's remuneration of RM18,020 (2008: RM49,000 and RM17,000 respectively) for the Company in the financial year was borne by Cagamas.

30. DIRECTORS' REMUNERATION

The Directors of the Company who have held office during the financial year are as follows:

Non-executive Directors:

Dato' Ooi Sang Kuang (Chairman)
Dato' Mohd Razif Abd Kadir
Tang Wing Chew
Datuk George Ratilal
Dato' Charon Wardini Mokhzani
Dato' Sri Abdul Wahid Omar

The aggregate amount of emoluments received by the Directors of the Group and the Company during the financial year is as follows:

	Group		Company	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Non-executive Directors:				
Fees	726	215	236	47
Other remuneration	69	43	23	2
	795	258	259	49

31. ALLOWANCE FOR IMPAIRMENT LOSSES

	Group	
	2009 RM'000	2008 RM'000
Allowance for impairment losses	65,426	25,967

32. TAXATION

	Group		Company	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
(a) Tax charge for the financial year				
Current tax	103,907	79,964	7,500	23,419
Deferred taxation (Note 22)	38,644	62,568	–	–
	142,551	142,532	7,500	23,419
Current tax:				
Current year	103,907	81,912	7,500	23,419
Overprovision in prior year	–	(1,948)	–	–
Deferred taxation:				
Origination and reversal of temporary differences	38,644	62,568	–	–
	142,551	142,532	7,500	23,419

(b) Reconciliation of income tax expense

The tax on the Group and Company profit before taxation differs from the theoretical amount that would arise using the statutory income tax rate of Malaysia as follows:

	Group		Company	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Profit before taxation	559,161	564,288	30,000	90,072
Tax calculated at tax rate of 20%	–	100	–	–
Tax calculated at tax rate of 25% (2008: 26%)	139,573	146,587	7,500	23,419
Expenses not deductible for tax purposes	3,450	160	–	–
Deduction arises from zakat contribution	(526)	(262)	–	–
Change in tax rate	62	(2,105)	–	–
Overprovision in prior year	–	(1,948)	–	–
Expenses allowed for double deduction	(8)	–	–	–
	142,551	142,532	7,500	23,419

33. NET TANGIBLE ASSETS AND EARNINGS PER SHARE

The net tangible assets per share is calculated by dividing the net tangible assets of RM3,031,928,000 of the Group and RM4,031,631,000 of the Company respectively (2008: RM2,603,900,000 and RM4,031,852,000 for the Group and the Company respectively) by the 150,000,000 shares of the Group and the Company in issue.

Basic and diluted earnings per share is calculated by dividing the net profit for the financial year of RM414,689,000 of the Group and RM22,500,000 of the Company respectively (2008: RM419,681,000 of the Group and RM66,653,000 of the Company respectively) by the 150,000,000 shares of the Group and the Company in issue. For the diluted earnings per share calculation, no adjustment has been made to weighted number of ordinary shares in issue as there are no dilutive potential ordinary shares.

34. DIVIDENDS

Dividends paid are as follows:

Company 2009	**Net per share sen**	**Amount of dividend net of tax RM'000**
First interim dividend paid	11.25	16,875
Second interim dividend paid	3.75	5,625
	15.00	22,500

35. RELATED PARTIES AND SIGNIFICANT RELATED PARTY TRANSACTIONS

(a) Related parties and relationships

The related parties and their relationships with the Group are as follows:

Related parties	**Relationships**
Cagamas Berhad ("Cagamas")	Subsidiary
Cagamas MBS Berhad ("CMBS")	Subsidiary
BNM Sukuk Berhad ("BNM Sukuk")	Special Purpose Entity ("SPE")
Cagamas SME Berhad ("CSME")	Special Purpose Entity ("SPE")
Cagamas HKMC Berhad ("CHKMC")	Joint venture ("JV")
Bank Negara Malaysia ("BNM")	Other related party
Key management personnel	Other related party
Entities in which key management personnel have control	Other related party

BNM is regarded as a related party as per the definition of FRS 124 on Related Party Transactions.

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group either directly or indirectly. The key management personnel of the Group include all the Directors of the Group and its holding company, certain members of senior management and their close family members.

Entities in which key management personnel have control are defined as entities that are controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly by key management personnel.

35. RELATED PARTIES AND SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Significant related party transactions and balances

Most of the transactions involving mortgage loans, hire purchase and leasing debts and Islamic financing facilities as well as issuance of unsecured debt securities and Sukuk are done at arm's length with the other shareholders of the Group. These transactions were carried out on commercial terms (i.e. terms and conditions obtainable in transactions with unrelated parties) and at market rates unless otherwise stated. These transactions have been disclosed on the balance sheet and income statement of the Group.

Set out below are significant related party transactions which were conducted in the normal course of business.

Group	Subsidiary company RM'000	JV RM'000	Wholly owned SPE of holding company RM'000	BNM RM'000
2009				
Income				
Transaction administrator and administrator fees	10,086	–	199	–
Management fee	–	500	–	–
Expenses				
Fully Automated System for Issuing and Tendering ("FAST") & Real-time Electronic Transfer of Funds and Securities ("RENTAS") charges	–	–	–	21
Guarantee and Wakalah fee expense	–	816	–	–
Amount due from				
Transaction administrator and administrator fees	1,087	–	44	–
BNM Current accounts	–	–	–	26
Reimbursement of operating expenses	–	9	–	–
2008				
Income				
Transaction administrator and administrator fees	10,929	–	211	–
Management fee	–	250	–	–
Expenses				
Fully Automated System for Issuing and Tendering ("FAST") & Real-time Electronic Transfer of Funds and Securities ("RENTAS") charges	–	–	–	101
Amount due from				
Transaction administrator and administrator fees	1,173	–	55	–
BNM Current accounts	–	–	–	26
Reimbursement of operating expenses	–	258	–	–

The amount due from subsidiary is unsecured, interest free and repayable in arrears on each interest Payment/Profit Distribution Date.

In addition, the Group's key management personnel received remuneration for services rendered during the financial year. The total compensation paid to the Group's key management personnel for Group level was RM6,886,035 (2008: RM5,307,036).

The total remuneration paid to the Directors is disclosed in Note 30 to the financial statements.

36. INVESTMENT IN SUBSIDIARY COMPANIES AND SPECIAL PURPOSE ENTITIES ("SPE")

Company	**2009 RM'000**	**2008 RM'000**
Investment in subsidiary companies and SPE:		
Unquoted shares at fair value	3,981,628	3,981,628

The subsidiary companies and SPE of the Company are as follows:

Name	**Principal activities**	**Interest in equity held by the Company 2009**
Cagamas	Consist of purchases of mortgage loans and hire purchase and leasing debts from primary lenders approved by Cagamas and the issue of bonds and notes to finance the purchases. Cagamas also purchases Islamic financing facilities such as home financing, personal financing and hire purchase financing and funded by issuance of Sukuk.	100%
CMBS	Purchase of mortgage assets and Islamic mortgage assets from the Grovernment of Malaysia ("GOM") and issuance of residential mortgage-backed securities ("RMBS") and Islamic residential mortgage-backed securites ("IRMBS") to finance the purchases of the mortgage assets and Islamic mortgage assets.	100%
BNM Sukuk	The principal activities of the Company are to undertake the issuances of Islamic securities investment namely Sukuk BNM Ijarah based on Syariah principles to finance the purchase of the beneficial interest of land and building from BNM and, thereafter to lease back the same land and building to BNM for the contractual period which is similar to the tenure of the Sukuk BNM Ijarah, and Sukuk BNM Murabahah based on Syariah principles via issuance of Trust Certificates to evidence investors' beneficial interest over commodity assets and its profits, arising from the sale of commodity assets to BNM.	100%
CSME	Securitisation of small and medium enterprise credit facilities via cash or synthetic securitisations or a combination of both.	100%

The results and net assets of BNM Sukuk and CSME were not consolidated with the Company since the Group has no power to exercise control over the financial and operating policies in the SPE and it does not obtain economic benefits from its activities.

37. CAPITAL COMMITMENTS

	Group 2009 RM'000	2008 RM'000
Capital expenditure:		
Authorised and contracted for	1,133	5,250
Authorised but not contracted for	6,050	525
Analysed as follows:		
Property and equipment	720	–
Renovations	–	4,523
Computer equipments	6,463	1,252

38. LEASE COMMITMENTS

The Group has lease commitments in respect of rented premises and hired equipment, all of which are classified as operating leases. A summary of the non-cancellable long-term commitments is as follows:

	2009 RM'000	2008 RM'000
Maturing within one year	3,082	3,259
One year to five years	6,302	5,587
	9,384	8,846

39. DERIVATIVE FINANCIAL INSTRUMENTS

Interest rate swaps ("IRS") are used as hedging tools to support issuance of fixed rate bonds to fund floating rate purchases of mortgage loans. By entering into IRS, the Group is protected from adverse movements in interest rates since the Group pays the floating rate receipts from its floating rate purchases to and receives fixed rate payments from the swap counterparties. These fixed rate payments will then be utilised to pay interest on the fixed rate bonds issued.

The IRS are also used to hedge the Group's issuance of debt securities in a rising interest rate environment. In the first leg of the transaction, the Group pays fixed rate interest and receives floating rate payments from the swap counterparties. On issuance of the debt securities, the Group unwinds the IRS transaction by taking an opposite position for the same amounts as in the first leg of the transaction. The IRS protects the Group in a rising interest rate environment since the Group will be receiving higher fixed rate as compared to the higher fixed rate that the Group is required to pay to the bondholders.

The objective when using any derivative instrument is to ensure that the risk and reward profile of any transaction is optimised. The intention is to only use derivatives to create economically effective hedges. However, because of the specific requirements of FRS 139 to obtain hedge accounting, not all economic hedges are accounted for as accounting hedges, either because natural accounting offsets are expected or because obtaining hedge accounting would be especially onerous.

(a) Cash flow hedges

The Group has designated a number of IRS as cash flow hedges during the financial year. The total fair value of derivatives included within cash flow hedges at 31 December 2009 was a credit of RM42.4 million.

(b) Fair value hedges

At present, the Group has not designated any derivatives as "fair value hedges".

39. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

(c) Net investment hedges

At present, the Group does not designate any derivatives as net investment hedges.

All derivatives financial instruments are held for economic hedging purposes. However, not all derivatives are designated as hedge instruments under the terms of FRS 139. The analysis below splits derivatives between those in accounting hedge relationships and those not in accounting hedge relationships.

Group	2009 Contract/ notional amount RM'000	2009 Fair value Assets RM'000	2009 Fair value Liabilities RM'000	2008 Contract/ notional amount RM'000	2008 Fair value Assets RM'000	2008 Fair value Liabilities RM'000
Derivatives in accounting hedge relationships						
Derivatives designated as cash flow hedges:						
IRS	720,000	–	(42,370)	770,000	–	(85,353)
Derivatives not in accounting hedge relationship						
IRS	760,000	5,983	(5,509)	1,100,000	11,795	(10,474)
Total recognised derivative assets/ (liabilities)	1,480,000	5,983	(47,879)	1,870,000	11,795	(95,827)

The remaining terms and notional principal amounts of the outstanding IRS of the Group at the balance sheet date were:

	Group 2009 RM'000	Group 2008 RM'000
Maturing within one year	590,000	390,000
One year to three years	480,000	1,045,000
Three years to five years	–	25,000
More than five years	410,000	410,000
	1,480,000	1,870,000

40. INTEREST/PROFIT RATE RISK

Cash flow interest/profit rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group takes on the exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that an unexpected movement in the market interest/profit rates arise.

40. INTEREST/PROFIT RATE RISK (CONTINUED)

The following tables summarises the Group's exposure to interest/profit rate risks. Included in the tables are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The carrying amounts of derivative financial instruments, which are principally used to reduce the Group's exposure to interest rate movements, are included in "other assets" and "other liabilities" under the heading "Non-interest/profit bearing".

Group 2009	Effective interest/ profit rate %	Within one year RM'000	One year to three years RM'000	Three years to five years RM'000	More than five years RM'000	Non-interest/ profit bearing RM'000	Total RM'000
Cash and short-term funds	2.04	781,970	–	–	–	374	782,344
Deposits and placements with financial institutions	2.15	488,520	–	–	–	–	488,520
AFS investment securities	3.18	1,430,463	320,627	218,513	54,892	–	2,024,495
Amounts due from counterparties:							
Fixed rate portfolio	4.73	1,276,592	1,801,377	1,563,176	–	–	4,641,145
Mortgage assets	4.09	1,065,117	2,210,495	1,976,903	9,333,203	(2,687,703)	11,898,015
Islamic mortgage assets	4.10	483,655	1,111,028	1,097,639	6,875,140	(1,753,736)	7,813,726
Islamic financing debts	4.07	731,618	3,838,343	–	–	–	4,569,961
Hire purchase assets	4.14	1,760	926	–	–	(54)	2,632
Islamic hire purchase assets	4.17	8,371	13,982	7,365	554	(2,329)	27,943
Other assets		505,939	14,165	8,493	18,980	97,867	645,444
Total assets		6,774,005	9,310,943	4,872,089	16,282,769	(4,345,581)	32,894,225
Unsecured bearer bonds and notes	4.56	2,814,892	1,925,000	2,215,000	4,380,000	–	11,334,892
Islamic bonds	4.34	3,777,118	2,022,915	525,000	2,745,000	–	9,070,033
RMBS	4.82	765,000	935,000	725,000	2,455,000	–	4,880,000
IRMBS	4.30	545,000	515,000	270,000	2,580,000	–	3,910,000
Other liabilities		251,251	7,198	–	37,172	356,144	651,765
Total liabilities		8,153,261	5,405,113	3,735,000	12,197,172	356,144	29,846,690
Shareholders' funds		–	–	–	–	3,047,535	3,047,535
Total liabilities and shareholders' funds		8,153,261	5,405,113	3,735,000	12,197,172	3,403,679	32,894,225
Interest/profit sensitivity gap		(1,379,256)	3,905,830	1,137,089	4,085,597		
Cumulative gap		(1,379,256)	2,526,574	3,663,663	7,749,260		

40. INTEREST/PROFIT RATE RISK (CONTINUED)

Group 2008	Effective interest/ profit rate %	Within one year RM'000	One year to three years RM'000	Three years to five years RM'000	More than five years RM'000	Non-interest/ profit bearing RM'000	Total RM'000
Cash and short-term funds	3.26	250,606	–	–	–	142	250,748
Deposits and placements with financial institutions	3.52	1,288,650	–	–	–	–	1,288,650
AFS investment securities	4.06	767,764	201,249	133,189	173,938	–	1,276,140
Amounts due from counterparties:							
Fixed rate portfolio	4.17	6,175,041	3,022,884	489,770	–	–	9,687,695
Mortgage assets	5.08	1,051,334	1,868,386	1,617,915	7,579,460	(2,419,553)	9,697,542
Islamic mortgage assets	5.13	415,961	834,593	810,018	5,611,730	(1,493,935)	6,178,367
Islamic financing debts	4.24	2,068,803	2,812,926	761,230	–	–	5,642,959
Other assets	1.39	293,101	15,250	10,001	20,250	263,330	601,932
Total assets		12,311,260	8,755,288	3,822,123	13,385,378	(3,650,016)	34,624,033
Unsecured bearer bonds and notes	4.26	6,974,963	3,014,452	485,000	2,845,000	–	13,319,415
Islamic bonds	4.39	3,411,256	3,157,205	478,735	1,440,000	–	8,487,196
RMBS	4.78	340,000	1,055,000	645,000	3,180,000	–	5,220,000
IRMBS	4.30	–	545,000	515,000	2,850,000	–	3,910,000
Deposits and placements of financial institutions	3.48	465,000	–	–	–	–	465,000
Other liabilities	2.53	92,804	–	–	–	507,579	600,383
Total liabilities		11,284,023	7,771,657	2,123,735	10,315,000	507,579	32,001,994
Shareholders' funds		–	–	–	–	2,622,039	2,622,039
Total liabilities and shareholders' funds		11,284,023	7,771,657	2,123,735	10,315,000	3,129,618	34,624,033
Interest/profit sensitivity gap		1,027,237	983,631	1,698,388	3,070,378		
Cumulative gap		1,027,237	2,010,868	3,709,256	6,779,634		

The table represents a static position which provides an indication of the potential impact on the Group's balance sheet through gap analysis of the interest/profit rate sensitive assets, liabilities and off-balance sheet items by time bands. A positive interest/profit rate sensitivity gap exists when more interest/profit sensitive assets than interest/profit sensitive liabilities reprice or mature during a given time period. Similarly, a negative interest/profit rate sensitivity gap exists when more interest/profit sensitive liabilities than interest/profit sensitive assets reprice or mature during a given time period. Any negative interest/profit rate sensitivity gap is to be funded by the Group's shareholders' funds, unsecured bearer notes or money market borrowings.

For decision-making purposes, the Group and the Company manage their exposure to interest/profit rate risk. The Group and the Company set limits on the sensitivity of the Group and the Company's forecasted net interest income/income at risk to projected changes in interest/profit rates. The Group and the Company also undertake duration analysis before deciding on the size and tenure of the debt securities to be issued to ensure that the Group and the Company's assets and liabilities are closely matched within the tolerance limit set by the Board.

41. CREDIT RISK

The Group's counterparties are mainly the GOM and the financial institutions in Malaysia. The financial institutions are governed by the Banking and Financial Institutions Act, 1989 and Islamic Banking Act, 1983 and are subject to periodic reviews by BNM. The following tables summarise the Group's exposure to credit risk as at the balance sheet date:

Group 2009	Cash and short-term funds RM'000	Deposits and placement with financial institutions RM'000	AFS investment securities RM'000	Amount due from counter parties RM'000	Mortgage assets RM'000	Islamic mortgage assets RM'000	Islamic financing debts RM'000	Hire purchase assets RM'000	Islamic hire purchase assets RM'000	Derivative financial instruments RM'000	Other assets RM'000	Total RM'000
Government bodies	26	–	536,257	–	11,309,724	7,813,726	–	–	–	–	483,276	20,143,009
Financial Institutions:												
Commercial banks	605,076	288,520	821,532	4,088,403	–	–	4,569,961	–	–	5,983	39,980	10,419,455
Investment banks	177,240	200,000	–	–	–	–	–	–	–	–	320	377,560
Communications, electricity, gas and water	–	–	256,597	116,863	588,291	–	–	2,632	27,943	–	9,798	1,002,124
Transportation	–	–	161,835	35,899	–	–	–	–	–	–	819	198,553
Leasing	–	–	73,175	399,980	–	–	–	–	–	–	3,702	476,857
Others	2	–	175,099	–	–	–	–	–	–	–	101,566	276,667
Total	782,344	488,520	2,024,495	4,641,145	11,898,015	7,813,726	4,569,961	2,632	27,943	5,983	639,461	32,894,225

41. CREDIT RISK (CONTINUED)

Group 2008	Cash and short-term funds RM'000	Deposits and placement with financial institutions RM'000	AFS investment securities RM'000	Amount due from counter parties RM'000	Mortgage assets RM'000	Islamic mortgage assets RM'000	Islamic financing debts RM'000	Derivative financial instruments RM'000	Other assets RM'000	Total RM'000
Government bodies	26	–	583,626	–	9,697,542	6,178,367	–	–	439,802	16,899,363
Financial Institutions:										
Commercial banks	60,801	1,288,650	241,377	9,138,206	–	–	5,642,959	11,795	76,390	16,460,178
Investment banks	189,920	–	–	2,420	–	–	–	–	67	192,407
Communications, electricity, gas and water	–	–	90,054	133,368	–	–	–	–	379	223,801
Transportation	–	–	100,222	51,846	–	–	–	–	821	152,889
Leasing	–	–	–	361,855	–	–	–	–	2,583	364,438
Others	1	–	260,861	–	–	–	–	–	70,095	330,957
Total	250,748	1,288,650	1,276,140	9,687,695	9,697,542	6,178,367	5,642,959	11,795	590,137	34,624,033

42. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments comprise financial assets, financial liabilities and off-balance sheet financial instruments. Fair value is the amount at which a financial asset could be exchanged or a financial liability settled, between knowledgeable and willing parties in an arm's length transaction. The information presented herein represents the estimates of fair values as at the balance sheet date.

Where available, quoted and observable market prices are used as the measure of fair values. Where such quoted and observable market prices are not available, fair values are estimated based on a number of methodologies and assumptions regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows and other factors. Changes in the assumptions could materially affect these estimates and the corresponding fair values. In addition, fair value information for non-financial assets and liabilities such as property and equipment are excluded, as they do not fall within the scope of FRS 132, which requires the fair value information to be disclosed.

The derivative financial instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates relative to their terms. The extent to which instruments are favourable or unfavourable and the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

42. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The estimated fair values of those on balance sheet financial assets and financial liabilities of the Group and the Company as at balance sheet date approximate their carrying amounts as shown in the balance sheets, except for the following financial assets and financial liabilities:

	2009		2008	
Group	**Carrying value RM'000**	**Fair value RM'000**	**Carrying value RM'000**	**Fair value RM'000**
Assets				
Amount due from counterparties	4,641,145	4,674,103	9,687,695	9,699,876
Mortgage assets	11,898,015	12,169,019	9,697,542	9,813,433
Islamic mortgage assets	7,813,726	7,892,826	6,178,367	6,207,360
Islamic financing debts	4,569,961	4,565,822	5,642,959	5,774,327
Hire purchase assets	2,632	2,637	–	–
Islamic hire purchase assets	27,943	28,250	–	–
	28,953,422	29,332,657	31,206,563	31,494,996
Liabilities				
Unsecured bearer bonds and notes	11,334,892	11,495,383	13,319,415	12,207,767
Islamic bonds	9,070,033	9,102,032	8,487,196	7,001,675
RMBS	4,880,000	4,902,236	5,220,000	5,259,269
IRMBS	3,910,000	3,784,562	3,910,000	3,785,832
	29,194,925	29,284,213	30,936,611	28,254,543

The following methods and assumptions were used to estimate the fair value of financial instruments as at the balance sheet date:

(a) Cash and short-term funds

The carrying amount of cash and short-term funds is used as reasonable estimate of fair values as the maturity is less than or equal to a month.

(b) Amounts due from counterparties

The fair value of the fixed rate assets portfolio is based on the present value of estimated future cash flows discounted at the risk-adjusted rates at the balance sheet date. The fair value of the floating rate assets portfolio is based on their carrying amount as the repricing date of the floating rate assets portfolio is not greater than 6 months.

(c) Mortgage assets, Islamic mortgage assets, hire purchase assets and Islamic hire purchase assets

The fair value of the mortgage assets, Islamic mortgage assets, hire purchase assets and Islamic hire purchase assets are derived at using the present value of future cash flows discounted based on Cagamas and CMBS' respective weighted average cost of capital ("WACC"). The WACC is the mortgage assets and RMBS/IRMBS yield to maturity at the balance sheet date.

(d) AFS investment securities

The fair value of the AFS investment securities is derived from the market indicative quotes or observable market prices at the balance sheet date.

42. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(e) Islamic financing debts

The fair value of the Islamic financing debts is based on the present value of estimated future cash flows discounted at the risk-adjusted profit rates at the balance sheet date.

(f) Other financial assets

Other financial assets include accrued interest/profit receivables, other debtors and deposits. The fair value of other financial assets is estimated at their carrying amount.

(g) Unsecured bearer bonds and notes

The estimated fair value of unsecured bearer bonds is based on the estimated future cash flows discounted using current yield curve derived based on the quoted market prices at the balance sheet date. The fair value of notes is estimated at their carrying amount as notes have maturity of less than one year.

(h) Amount due to/from subsidiary companies, JV and SPE

The estimated fair value of amount due to/from subsidiary companies, JV and SPE approximated their book value due to short tenure of less than one year.

(i) RMBS and IRMBS

The estimated fair value of RMBS and IRMBS is based on the estimated future cash flows discounted using current yield curve appropriate for the remaining term of maturity.

(j) Other financial liabilities

Other financial liabilities include accrued interest payable, profit attributable, creditors and accruals. The fair value of other financial liabilities is estimated at their carrying amount.

(k) Derivative financial instruments

The estimated fair value of the IRS is based on the discounted estimated future cash flows using the market interest rate at the balance sheet date.

43. SEGMENT REPORTING

The Group comprises the following business segments:

(a) Purchase With Recourse ("PWR")

The PWR scheme consists of purchase of mortgage loans, hire purchase and leasing debts, Islamic financing facilities such as home financing, hire purchase financing and personal financing from the primary lenders approved by the Group. The loans and financing are acquired with recourse to the primary lenders should the loans and financing fail to comply with agreed prudential criteria.

(b) Purchase Without Recourse ("PWOR")

Under the PWOR scheme, the Group purchases the mortgage assets, hire purchase assets, Islamic mortgage assets and Islamic hire purchase assets from counterparty on an outright basis for the remaining tenure of the respective assets purchased. The purchases are made without recourse to counterparty, other than certain warranties to be provided by the seller pertaining to the quality of the mortgage assets, hire purchase assets, Islamic mortgage assets and Islamic hire purchase assets.

43. SEGMENT REPORTING (CONTINUED)

Group 2009	Purchase with recourse RM'000	Purchase without recourse RM'000	Total RM'000
Total revenue	267,559	886,831	1,154,390
Profit from operations	64,874	494,287	559,161
Taxation	(19,197)	(123,354)	(142,551)
Zakat	(1,534)	(387)	(1,921)
Net profit by segment	44,143	370,546	414,689
Segment assets	10,872,996	22,021,229	32,894,225
Segment liabilities	8,927,757	20,918,933	29,846,690
Other information			
Capital expenditure	3,085	3,301	6,386
Depreciation and amortisation	2,105	2,252	4,357
2008			
Total revenue	505,795	708,514	1,214,309
Profit from operations	75,765	488,523	564,288
Taxation	(25,996)	(116,536)	(142,532)
Zakat	(673)	(1,402)	(2,075)
Net profit by segment	49,096	370,585	419,681
Segment assets	17,000,042	17,623,991	34,624,033
Segmen liabilities	15,278,251	16,723,743	32,001,994
Other information			
Capital expenditure	1,730	1,370	3,100
Depreciation and amortisation	1,926	1,526	3,452

44. ANALYSIS OF GROUP'S FINANCIAL POSITION AND PERFORMANCE

ASSETS AND LIABILITIES 2009	Cagamas Holdings Berhad and Cagamas RM'000	CMBS RM'000	Consolidation adjustments RM'000	Total RM'000
ASSETS				
Cash and short-term funds	520,856	261,488		782,344
Deposits and placements with financial institutions	200,000	288,520		488,520
Derivative financial instruments	5,983	–		5,983
AFS investment securities	862,502	1,161,993		2,024,495
Amounts due from counterparties	4,641,145	–		4,641,145
Mortgage assets	7,360,733	4,537,282		11,898,015
Islamic mortgage assets	4,018,887	3,794,839		7,813,726
Islamic financing debts	4,569,961	–		4,569,961
Hire purchase assets	2,632	–		2,632
Islamic hire purchase assets	27,943	–		27,943
Deferred tax assets	21,465	–		21,465
Other assets	249,422	295,790		545,212
Investment in subsidiary and SPE	3,981,628	–	(3,981,628)	–
Interest in a JV	50,000	–	865	50,865
Property and equipment	6,253	–		6,253
Intangible assets	15,606	–		15,606
Amount due from holding company	2	–	(2)	–
Amount due from SPE	51	–		51
Amount due from a related company	1,088	–	(1,088)	–
Amount due from JV	9	–		9
TOTAL ASSETS	26,536,166	10,339,912		32,894,225
LIABILITIES				
Unsecured bearer bonds and notes	11,334,892	–		11,334,892
Islamic bonds	9,070,033	–		9,070,033
Derivative financial instruments	47,879	–		47,879
RMBS	–	4,880,000		4,880,000
IRMBS	–	3,910,000		3,910,000
Deferred tax liabilities	–	298,290		298,290
Provision for taxation	39,822	4,370		44,192
Other liabilities	218,942	42,462		261,404
Amount due to a subsidiary/ related company	3	1,087	(1,090)	–
TOTAL LIABILITIES	20,711,571	9,136,209		29,846,690

44. ANALYSIS OF GROUP'S FINANCIAL POSITION AND PERFORMANCE (CONTINUED)

ASSETS AND LIABILITIES 2008	Cagamas Holdings Berhad and Cagamas RM'000	CMBS RM'000	Consolidation adjustments RM'000	Total RM'000
ASSETS				
Cash and short-term funds	249,355	1,393		250,748
Deposits and placements with financial institutions	817,570	471,080		1,288,650
Derivative financial instruments	11,795	–		11,795
AFS investment securities	521,906	754,234		1,276,140
Amounts due from counterparties	9,687,695	–		9,687,695
Mortgage assets	4,766,093	4,931,449		9,697,542
Islamic mortgage assets	2,224,927	3,953,440		6,178,367
Islamic financing debts	5,642,959	–		5,642,959
Tax recoverable	–	1,144		1,144
Deferred tax assets	14,054	–		14,054
Other assets	189,118	315,415		504,533
Investment in subsidiary and SPE	3,981,628	–	(3,981,628)	–
Interest in a JV	50,000	–	(4)	49,996
Property and equipment	1,741	–		1,741
Intangible assets	18,138	–		18,138
Amount due from holding company	221	–	(221)	–
Amount due from SPE	55	–		55
Amount due from related company	1,173	–	(1,173)	–
Amount due from JV	476	–		476
TOTAL ASSETS	28,178,904	10,428,155		34,624,033
LIABILITIES				
Unsecured bearer bonds and notes	13,319,415	–		13,319,415
Islamic bonds	8,487,196	–		8,487,196
Derivative financial instruments	95,827	–		95,827
RMBS	–	5,220,000		5,220,000
IRMBS	–	3,910,000		3,910,000
Deposits and placements of financial institutions	465,000	–		465,000
Deferred tax liabilities	–	243,401		243,401
Provision for taxation	16,617	840		17,457
Other liabilities	197,845	45,853		243,698
Amount due to a subsidiary/related company	221	1,173	(1,394)	–
TOTAL LIABILITIES	22,582,121	9,421,267		32,001,994

44. ANALYSIS OF GROUP'S FINANCIAL POSITION AND PERFORMANCE (CONTINUED)

INCOME STATEMENTS 2009	Cagamas Holdings Berhad and Cagamas RM'000	CMBS RM'000	Consolidation adjustments RM'000	Total RM'000
Interest income	735,791	418,599		1,154,390
Interest expense	(474,797)	(246,800)		(721,597)
Income from Islamic operations	109,066	130,105	4,372	243,543
Non-interest income	19,075	–	(32,586)	(13,511)
NET INCOME	389,135	301,904		662,825
Administration and general expenses	(17,480)	(6,321)	5,714	(18,087)
Personnel cost	(21,020)	–		(21,020)
Share of results in a JV company	–	–	869	869
OPERATING PROFIT	350,635	295,583		624,587
Allowance for impairment losses	(33,624)	(31,802)		(65,426)
PROFIT BEFORE TAXATION AND ZAKAT	317,011	263,781		559,161
Taxation	(76,606)	(65,945)		(142,551)
Zakat	(1,921)	–		(1,921)
NET PROFIT FOR THE FINANCIAL YEAR	238,484	197,836		414,689

44. ANALYSIS OF GROUP'S FINANCIAL POSITION AND PERFORMANCE (CONTINUED)

INCOME STATEMENTS 2008	Cagamas Holdings Berhad and Cagamas RM'000	CMBS RM'000	Consolidation adjustments RM'000	Total RM'000
Interest income	767,245	447,064		1,214,309
Interest expense	(568,828)	(259,599)		(828,427)
Income from Islamic operations	77,498	159,529	(498)	236,529
Non-interest income	75,911	126	(77,585)	(1,548)
NET INCOME	351,826	347,120		620,863
Administration and general expenses	(12,888)	(12,091)	11,427	(13,552)
Personnel cost	(17,052)	–		(17,052)
Share of results in a JV company	–	–	(4)	(4)
OPERATING PROFIT	321,886	335,029		590,255
Allowance for impairment losses	(25,967)	–		(25,967)
PROFIT BEFORE TAXATION AND ZAKAT	295,919	335,029		564,288
Taxation	(58,057)	(84,475)		(142,532)
Zakat	(2,075)	–		(2,075)
NET PROFIT FOR THE FINANCIAL YEAR	235,787	250,554		419,681

45. CAPITAL ADEQUACY

	Group 2009 RM'000	Group 2008 RM'000
The capital adequacy ratios are as follows:		
Tier I capital		
Paid-up capital	150,000	150,000
Other reserves	2,921,597	2,529,408
	3,071,597	2,679,408
Deferred tax liabilities	276,825	229,347
Total Tier I capital	3,348,422	2,908,755
Tier II capital		
Allowance for impairment losses	109,368	43,945
Total Tier II capital	109,368	43,945
Total capital base	3,457,790	2,952,700
Capital ratios:		
Core capital ratio	20.9%	21.2%
Risk weighted capital ratio	21.6%	21.6%
Breakdown of risk-weighted assets in the various categories of risk-weights is as follows:		
0%	217,436	4,988,460
10%	127,047	–
20%	11,035,959	12,195,592
50%	24,955,303	20,204,144
100%	1,293,568	1,158,727
	37,629,313	38,546,923
Total risk-weighted assets	15,991,117	13,699,918

The above capital adequacy ratio calculations are based on the Guidelines issued by BNM to the banking institutions. Although the Group is not subject to the above Guidelines, disclosure of the capital adequacy ratios is made on a voluntary basis for information purposes.

46. ISLAMIC OPERATIONS

BALANCE SHEETS AS AT 31 DECEMBER 2009

	Note	Group 2009 RM'000	Group 2008 RM'000
ASSETS			
Cash and short-term funds	(a)	385,371	59,363
Deposits and placements with financial institutions	(b)	57,900	550,000
AFS investment securities	(c)	872,896	530,394
Islamic mortgage assets	(d)	7,813,725	6,178,367
Islamic financing debts	(e)	4,569,961	5,642,959
Receivables		83,789	56,831
Other assets		390,537	388,091
TOTAL ASSETS		14,174,179	13,406,005
LIABILITIES			
Islamic bonds	(f)	9,070,033	8,487,196
IRMBS	(g)	3,910,000	3,910,000
Deferred taxation		120,873	98,383
Provision taxation		4,776	5,149
Other liabilities	(h)	113,923	113,339
TOTAL LIABILITIES		13,219,605	12,614,067
ISLAMIC OPERATIONS' FUNDS		954,574	791,938
TOTAL LIABILITIES AND ISLAMIC OPERATIONS' FUNDS		14,174,179	13,406,005

INCOME STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009

	Note	2009 RM'000	2008 RM'000
Total income attributable		414,751	415,455
Income attributable to the bondholders	(i)	(168,463)	(177,568)
Income attributable to the shareholders	(j)	246,288	237,887
Administration and general expenses		(2,745)	(1,358)
OPERATING PROFIT FROM ISLAMIC OPERATIONS		243,543	236,529
Allowance for impairment losses		(30,711)	(5,948)
PROFIT BEFORE TAXATION AND ZAKAT		212,832	230,581
Taxation		(48,524)	(58,745)
Zakat		(1,921)	(2,075)
NET PROFIT FOR THE FINANCIAL YEAR		162,387	169,761

46. ISLAMIC OPERATIONS (CONTINUED)

STATEMENTS OF CHANGES IN ISLAMIC OPERATIONS' FUNDS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009

	Allocated capital funds RM'000	AFS reserve RM'000	Retained profits RM'000	Total RM'000
Balance as at 1 January 2009	294,159	497	497,282	791,938
Revaluation of AFS investment securities	–	324	–	324
Deferred tax on revaluation of AFS securities	–	(75)	–	(75)
Income and expenses recognised directly in equity	–	249	–	249
Net profit for the financial year	–	–	162,387	162,387
Total recognised income and expenses for the year	–	249	162,387	162,636
Balance as at 31 December 2009	294,159	746	659,669	954,574
Balance as at 1 January 2008	153,750	(153)	327,521	481,118
Revaluation of AFS investment securities	–	734	–	734
Realised loss on disposal of AFS investment securities	–	139	–	139
Deferred tax on revaluation of AFS investment securities	–	(223)	–	(223)
Income and expenses recognised directly in equity	–	650	–	650
Net profit for the financial year	–	–	169,761	169,761
Total recognised income and expenses for the year	–	650	169,761	170,411
Transferred to Islamic operations	140,409	–	–	140,409
Balance as at 31 December 2008	294,159	497	497,282	791,938

46. ISLAMIC OPERATIONS (CONTINUED)

CASH FLOW STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009

	Note	Group 2009 RM'000	Group 2008 RM'000
OPERATING ACTIVITIES			
Net profit for the financial year		162,387	169,761
Adjustments for investment items and items not involving the movement of cash and cash equivalents:			
Accretion of discount on Islamic mortgage assets		(187,497)	(146,993)
Amortisation of premium less accretion of discount on AFS investment securities		(15,957)	(22,051)
Income accrued from AFS investment securities		(9,837)	(4,740)
Allowance for impairment losses		30,713	5,948
Wakalah fee expense		374	–
Gain on disposal of AFS investment securities		(22)	–
Taxation		48,524	58,745
Zakat		1,921	2,075
Operating profit before working capital charges		30,606	62,745
Decrease in Islamic financing debts		1,072,997	1,319,838
Increase in Islamic mortgage assets		(1,478,573)	(1,954,862)
Increase in receivables		(17,121)	(37,709)
Increase in other assets		(2,446)	(142,587)
Increase in Islamic bonds		582,837	974,744
Decrease in IRMBS		–	(250,000)
Increase in other liabilities		937	57,358
Cash generated from operations		189,237	29,527
Wakalah fee paid		(543)	–
Payment of taxation		(26,482)	(26,265)
Payment of zakat		(2,105)	(1,007)
Net cash generated from operating activities		160,107	2,255
INVESTING ACTIVITIES			
Net purchase of AFS investments securities		(326,199)	(135,908)
Income received from AFS investment securities		–	2,983
Net cash utilised in investing activities		(326,199)	(132,925)
FINANCING ACTIVITIES			
Increase in allocated funds		–	140,409
Net cash generated from financing activities		–	140,409
Net (decrease)/increase in cash and cash equivalents		(166,092)	9,739
Cash and cash equivalents as at beginning of the financial year		609,363	599,624
Cash and cash equivalents as at end of the financial year		443,271	609,363
Analysis of cash and cash equivalents:			
Cash and short-term funds	(a)	385,371	59,363
Deposits and placements with financial institutions	(b)	57,900	550,000
		443,271	609,363

46. ISLAMIC OPERATIONS (CONTINUED)

(a) CASH AND SHORT-TERM FUNDS

	Group 2009 RM'000	Group 2008 RM'000
Cash and balances with banks and other financial institutions	37	33
Mudharabah money at call and deposit placements maturing within one month	385,334	59,330
	385,371	59,363

(b) DEPOSITS AND PLACEMENTS WITH FINANCIAL INSTITUTIONS

	2009 RM'000	2008 RM'000
Licensed bank	57,900	550,000

(c) AFS INVESTMENT SECURITIES

	2009 RM'000	2008 RM'000
At fair value:		
Khazanah bonds	35,173	39,163
Malaysian Government investment issue	46,372	49,628
BNM negotiable notes	–	188,301
Islamic debt securities	491,075	56,503
Islamic negotiable instrument of deposits	300,276	175,589
Islamic accepted bills	–	21,210
	872,896	530,394

The maturity structure of AFS investment securities is as follows:

	2009 RM'000	2008 RM'000
Maturing within one year	688,660	474,692
One year to three years	153,391	15,154
Three years to five years	30,845	20,275
More than five years	–	20,273
	872,896	530,394

(d) ISLAMIC MORTGAGE ASSETS

	2009 RM'000	2008 RM'000
Islamic mortgage assets:		
PWOR	7,813,725	6,178,367
	7,813,725	6,178,367

The maturity structure of Islamic mortgage assets is as follows:

	2009 RM'000	2008 RM'000
Maturing within one year	483,654	415,961
One year to three years	1,111,028	834,593
Three years to five years	1,097,639	810,018
More than five years	6,875,140	5,611,729
	9,567,461	7,672,301
Less: Unaccreted discount	(1,710,493)	(1,481,403)
Less: Allowance for impairment losses	(43,243)	(12,531)
	7,813,725	6,178,367

46. ISLAMIC OPERATIONS (CONTINUED)

(e) ISLAMIC FINANCING DEBTS

	Group 2009 RM'000	Group 2008 RM'000
Islamic house financing debts	1,840,678	2,397,049
Islamic hire purchase debts	1,681,894	2,810,778
Islamic personal financing	1,047,389	435,132
	4,569,961	5,642,959

The maturity structure of Islamic financing debts is as follows:

	Group 2009 RM'000	Group 2008 RM'000
Maturing within one year	731,618	2,068,803
One year to three years	3,838,343	2,812,926
Three years to five years	–	761,230
	4,569,961	5,642,959

(f) ISLAMIC BONDS

	Group 2009 RM'000	Group 2008 RM'000
Sanadat Mudharabah Cagamas	–	50,000
Sanadat Cagamas	–	304,718
Bithaman Ajil Islamic securities	1,485,940	2,612,478
Islamic medium-term notes	7,205,000	545,000
Islamic commercial paper	379,093	4,975,000
	9,070,033	8,487,196

The maturity structure of Islamic bonds is as follows:

	Group 2009 RM'000	Group 2008 RM'000
Maturing within one year	3,777,118	3,411,256
One year to three years	2,022,915	3,157,205
Three years to five years	525,000	478,735
More than five years	2,745,000	1,440,000
	9,070,033	8,487,196

(g) ISLAMIC RESIDENTIAL MORTGAGE-BACKED SECURITES ("IRMBS")

	Group 2009 RM'000	Group 2008 RM'000
IRMBS	3,910,000	3,910,000

The maturity structure of the IRMBS is as follows:

	Group 2009 RM'000	Group 2008 RM'000
Maturing within one year	545,000	–
One year to three years	515,000	545,000
Three years to five years	270,000	515,000
More than five years	2,580,000	2,850,000
	3,910,000	3,910,000

46. ISLAMIC OPERATIONS (CONTINUED)

(h) OTHER LIABILITIES

	Group 2009 RM'000	Group 2008 RM'000
Zakat	2,651	2,835
Income attributable to bondholders	84,782	76,046
Profit attributable to IRMBS	19,642	19,863
Other liabilities	6,848	14,595
	113,923	113,339

(i) INCOME ATTRIBUTABLE TO THE BONDHOLDERS

	2009 RM'000	2008 RM'000
Income from Islamic mortgage assets	168,156	174,239
Income from Islamic financing debts	259	2,642
Income from AFS investment securities	(9)	89
Income from deposits and placements with financial institutions	57	598
	168,463	177,568

Income attributable to the bondholders analysed by concepts is as follows:

	2009 RM'000	2008 RM'000
Mudharabah	307	3,328
Musyarakah	168,156	174,240
	168,463	177,568

(j) INCOME ATTRIBUTABLE TO THE SHAREHOLDERS

	2009 RM'000	2008 RM'000
Income from Islamic mortgage assets	219,383	205,854
Income/(expenses) from Islamic financing debts	(302)	3,422
Income from AFS investment securities	14,084	17,929
Income from deposits and placements with financial institutions	13,123	10,682
	246,288	237,887

Income attributable to the shareholders analysed by concepts are as follows:

	2009 RM'000	2008 RM'000
Bai Al-Dayn	219,223	211,200
Mudharabah	13,412	17,000
Bai Bithaman Ajil	3,082	905
Murabahah	6,913	6,983
Musyarakah	2,514	1,681
Qard Al-Hasan	67	118
Bai Al-Inah	1,077	–
	246,288	237,887

46. ISLAMIC OPERATIONS (CONTINUED)

(k) CAPITAL ADEQUACY

	Group 2009 RM'000	2008 RM'000
Tier I capital		
Allocated capital funds	294,159	294,159
Other reserves	659,669	497,282
	953,828	791,441
Deferred tax liabilities	120,873	98,383
Total Tier I capital	1,074,701	889,824
Tier II capital		
Allowance for impairment losses	43,243	12,531
Total Tier II capital	43,243	12,531
Total capital base	1,117,944	902,355
Capital ratios:		
Core capital ratio	17.2%	15.7%
Risk weighted capital ratio	17.9%	15.9%
Breakdown of risk-weighted assets in the various categories of risk-weights is as follows:		
0%	335,455	289,079
10%	15,166	–
20%	5,615,920	6,268,062
50%	9,818,887	7,790,165
100%	222,546	532,692
	16,007,974	14,879,998
Total risk-weighted assets	6,256,690	5,681,386

The above capital adequacy ratio calculations are based on the Guidelines issued by BNM to the banking institutions. Although the Group is not subject to the above Guidelines, disclosure of the capital adequacy ratios is made on a voluntary basis for information purposes.

(l) SHARIAH ADVISORS

The Group consults an independent Shariah advisor on an ad-hoc basis for all its Islamic products to ensure compliance with Islamic principles. In addition, the Group is required to obtain the approval of the Shariah Council of the regulatory bodies for its Islamic products.

47. DISCRETIONARY BONUS FEE

In the respective Servicing Agreements signed between GOM, CMBS, Cagamas and the Trustee, CMBS agreed to pay GOM a discretionary bonus fee, out of the retained profits of CMBS, to be determined by CMBS in respect of the services provided by GOM, after the RMBS/IRMBS have been fully redeemed and all obligations and liabilities of CMBS in respect of the RMBS/IRMBS have been discharged.

48. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the presentation adopted in the current year. Such reclassifications did not affect previously reported net income or equity.

49. APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 26 April 2010.

Statement by Directors
pursuant to Section 169(15) of the Companies Act, 1965

We, Dato' Ooi Sang Kuang and Datuk George Ratilal, two of the Directors of Cagamas Holdings Berhad, state that, in the opinion of the Directors, the financial statements set out on pages 75 to 137 are drawn up so as to give a true and fair view of the state of affairs of the Group and the Company as at 31 December 2009 and of the results and cash flows of the Group and the Company for the financial year ended on that date in accordance with MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities and the provisions of the Companies Act, 1965.

Signed on behalf of the Board of Directors in accordance with their resolution.

DATO' OOI SANG KUANG
CHAIRMAN

DATUK GEORGE RATILAL
DIRECTOR

Statutory Declaration
pursuant to Section 169(16) of the Companies Act, 1965

I, Choy Khai Choon, the Officer primarily responsible for the financial management of Cagamas Holdings Berhad, do solemnly and sincerely declare that the financial statements set out on pages 75 to 137 are, in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

CHOY KHAI CHOON

Subscribed and solemnly declared by the abovenamed Choy Khai Choon at Kuala Lumpur in Malaysia on 26 April 2010, before me.

AHMAD B. LAYA
COMMISSIONER FOR OATHS

Independent Auditors' Report
to the members of Cagamas Holdings Berhad

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Cagamas Holdings Berhad, which comprise the balance sheet as at 31 December 2009 of the Group and of the Company, and the income statement, statement of changes in equity and cash flow statement of the Group and of the Company for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 75 to 137.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation and fair presentation of these financial statements in accordance with MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities and the Companies Act, 1965. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are responsible in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities and the Companies Act, 1965 so as to give a true and fair view of the financial position of the Group and of the Company as of 31 December 2009 and of their financial performance and cash flows for the year then ended.

Independent Auditors' Report
to the members of Cagamas Holdings Berhad (continued)

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following:

a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries have been properly kept in accordance with the provisions of the Act.

b) We are satisfied that the financial statements of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.

c) Our audit reports on the financial statements of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

OTHER MATTERS

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

PRICEWATERHOUSECOOPERS
(No. AF: 1146)
Chartered Accountants

SOO HOO KHOON YEAN
(No. 2682/10/11 (J))
Chartered Accountant

Kuala Lumpur
26 April 2010